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# Results Briefing

Second Quarter, Fiscal Year Ending December 2014

**July 30, 2014**

**Exciting Company**



**Arealink Co.,Ltd.**

Securities code : 8914

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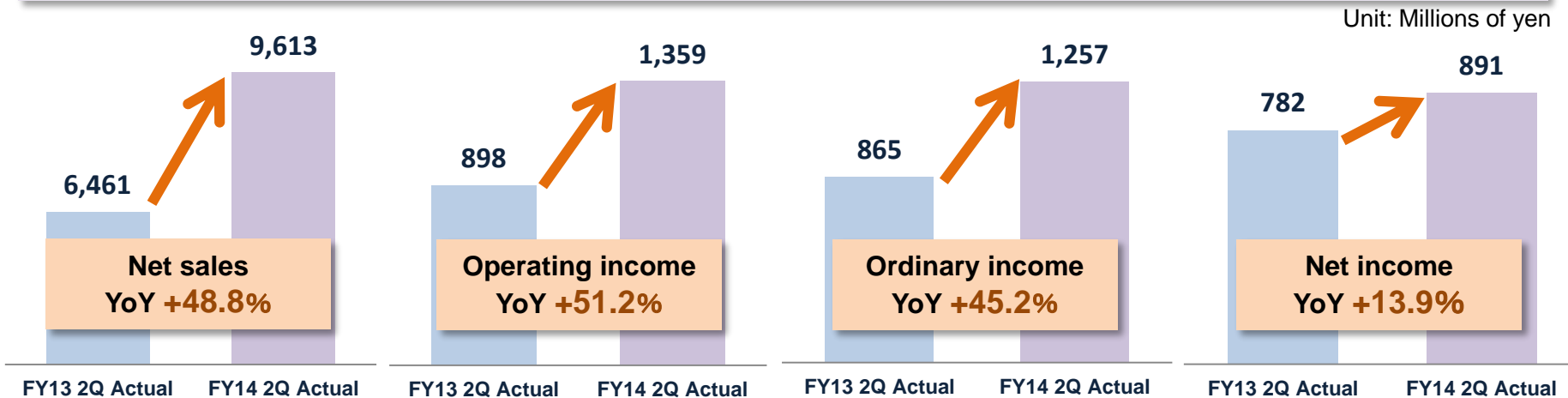
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# Part I

## Results Overview

- Note: Figures in this report presented in units of billions have been rounded off, while figures in units of millions have been rounded down

All businesses steadily expanded. Results significantly exceeded targets, with double-digit growth in revenue and earnings year on year.



	FY13 2Q Cumulative		FY14 2Q Cumulative (plan)		FY14 2Q Cumulative (actual)		Actual vs. Initial plan		YoY	
	Actual	(%)	Plan	(%)	Actual	(%)	Variance	% Change	Variance	% Change
(Millions of yen)										
Net sales	6,461	(100.0)	6,845	(100.0)	9,613	(100.0)	2,768	40.4%	3,152	48.8%
Cost of sales	4,684	(72.5)	5,058	(73.9)	7,180	(74.7)	2,122	42.0%	2,496	53.3%
Gross profit	1,777	(27.5)	1,787	(26.1)	2,432	(25.3)	645	36.1%	655	36.9%
SG&A expenses	878	(13.6)	818	(12.0)	1,073	(11.2)	255	31.2%	195	22.2%
Operating income	898	(13.9)	969	(14.2)	1,359	(14.1)	389	40.2%	460	51.2%
Ordinary income	865	(13.4)	891	(13.0)	1,257	(13.1)	366	41.1%	391	45.2%
Net income	782	(12.1)	787	(11.5)	891	(9.3)	104	13.2%	108	13.9%

# Segment Breakdown

## Property Management Service

- Storage management (Hello Storage customer recruitment, operations and management)
- Storage liquidation (Hello Storage orders and location development)
- Other management services
  - Asset management (Tenant recruitment, operations and management of help properties)
  - SOHO (Hello Office / Hello Rental Meeting Room)
  - Parking lots, etc.



Hello Storage (Container type)



Hello Storage (Room type)



Property Holding (Residential and commercial building, Ichigaya)



Hello Rental Meeting Room (Shinjuku)

## Property Revitalization & Liquidation Service

- Real estate sales
  - \* Renovate, provide added value, and sell



Sold property (Residential building, Kyodo, Setagaya Ward)

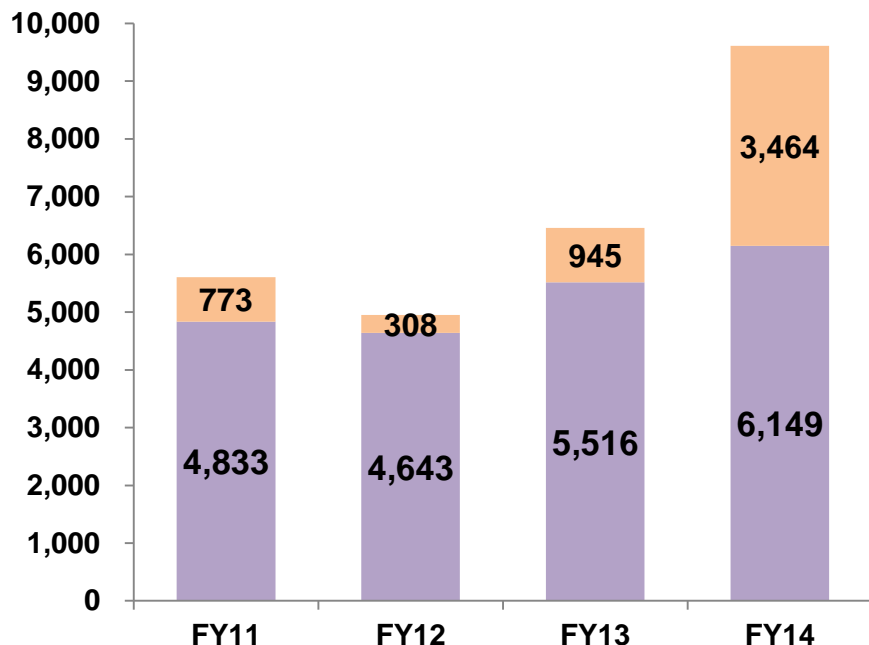
# Net Sales and Gross Profit by Segment

Results are rising in all segments. The gains in sales and earnings in the Property Revitalization & Liquidation Service segment have been particularly high.

## Net sales

(Unit: Millions of yen)

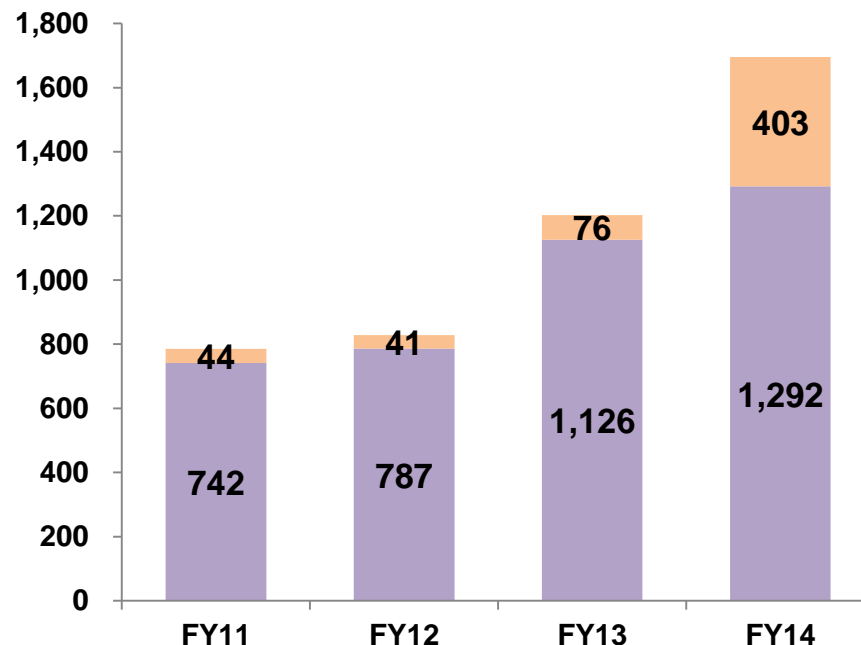
- Property Revitalization & Liquidation Service
- Property Management Service



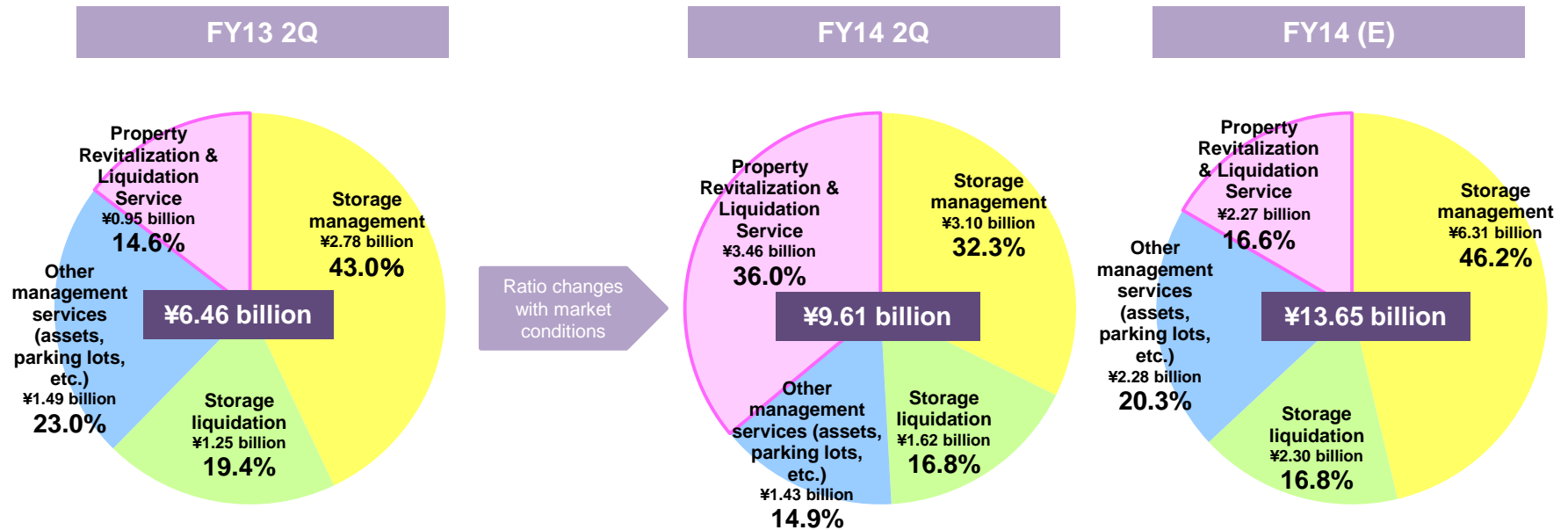
## Segment profit

(Unit: Millions of yen)

- Property Revitalization & Liquidation Service
- Property Management Service



# Sales by Segment



- ✓ Composition ratio has changed compared to FY13 2Q.
- ✓ Property Revitalization & Liquidation Service continued to grow steadily in 2Q, reaching ¥3.46 billion, considerably exceeding the full-year forecast of ¥2.27 billion.
- ✓ Cumulative-type businesses such as storage management and other management services are expected to gradually make a greater contribution to sales through the second half.

# Profit Margin by Segment

Both the gross profit margin and operating income margin rose steadily on the whole in all business segments.

Unit: Millions of yen

			FY 13 (actual)		FY 14 (Initial budget)		FY 14 (actual)	
			1H actual	Profit margin	Initial budget	Profit margin	1H actual	Profit margin
Storage management	Net sales		2,775		6,306		3,100	
	Gross profit		827	29.8%	1,758	27.9%	871	28.1%
	Operating income		603	21.7%	1,273	20.2%	635	20.5%
Storage liquidation	Net sales		1,250		2,296		1,618	
	Gross profit		512	41.0%	714	31.1%	601	37.2%
	Operating income		236	18.9%	362	15.8%	281	17.4%
Other property management service	Net sales		1,489		2,775		1,430	
	Gross profit		337	22.7%	825	29.7%	453	31.7%
	Operating income		287	19.3%	716	25.8%	376	26.3%
<b>Property Management Service Total</b>	Net sales		5,516		11,378		6,149	
	Gross profit		1,678	30.4%	3,298	29.0%	1,927	31.3%
	Operating income		1,126	20.4%	2,352	20.7%	1,292	21.0%
<b>Property Revitalization &amp; Liquidation Service</b>	Net sales		945		2,272		3,464	
	Gross profit		98	10.4%	250	11.0%	505	14.6%
	Operating income		76	8.1%	186	8.2%	403	11.7%
<b>Other</b>	Net sales		—		—		—	
	Gross profit		—		—		—	
	Operating income		(304)		(674)		(337)	
<b>Total</b>	Net sales		6,461		13,651		9,613	
	Gross profit		1,777	27.5%	3,548	26.0%	2,432	25.3%
	Operating income		8,985	13.9%	1,863	13.7%	1,359	14.1%



# Quarterly Net Sales, Gross Profit, and Operating Income by Segment

Profitability also rose steadily in all segments during the period.  
Revitalization and liquidation projects are expected to continue to contribute to earnings.

Unit: Millions of yen

			FY12	FY13					FY14		
			(full year)								
			Cumulative	1Q	2Q	3Q	4Q	Cumulative	1Q	2Q	2Q Cumulative
	Storage management	Net sales	5,184	1,355	1,420	1,450	1,490	5,716	1,516	1,583	3,100
		Gross profit	1,402	378	449	403	343	1,574	383	488	871
		Operating income	932	259	343	276	215	1,095	260	375	635
	Storage liquidation	Net sales	1,085	410	840	426	419	2,096	613	1,004	1,618
		Gross profit	393	160	352	157	156	826	220	381	601
		Operating income	160	58	177	47	42	326	86	194	281
	Other property management service	Net sales	3,281	737	752	713	719	2,921	732	698	1,430
		Gross profit	721	155	182	215	181	735	228	225	453
		Operating income	596	129	158	192	179	615	191	184	376
<b>Property Management Service Total</b>	Net sales	9,551	2,502	3,013	2,590	2,628	10,735	2,862	3,286	6,149	
	Gross profit	2,516	693	984	776	681	3,136	832	1,094	1,927	
	Operating income	1,688	447	679	517	438	2,081	538	754	1,292	
<b>Property Revitalization &amp; Liquidation Service</b>	Net sales	573	889	55	450	125	1,521	1,995	1,468	3,464	
	Gross profit	112	81	16	62	8	169	222	282	505	
	Operating income	71	68	8	38	(4)	111	211	192	403	
<b>Other</b>	Net sales	—	—	—	—	—	—	—	—	—	
	Gross profit	—	—	—	—	—	—	—	—	—	
	Operating income	(594)	(162)	(142)	(165)	(217)	(644)	(167)	(169)	(337)	
<b>Total</b>	Net sales	10,124	3,392	3,069	3,041	2,754	12,256	4,858	4,755	9,613	
	Gross profit	2,629	775	1,001	839	689	3,306	1,055	1,377	2,432	
	Operating income	1,165	354	544	389	216	1,505	581	777	1,359	

# Completion Rate for Net Sales and Gross Profit Targets by Segment

In the Property Revitalization & Liquidation Service segment, both sales and gross profit greatly exceeded initial forecasts.

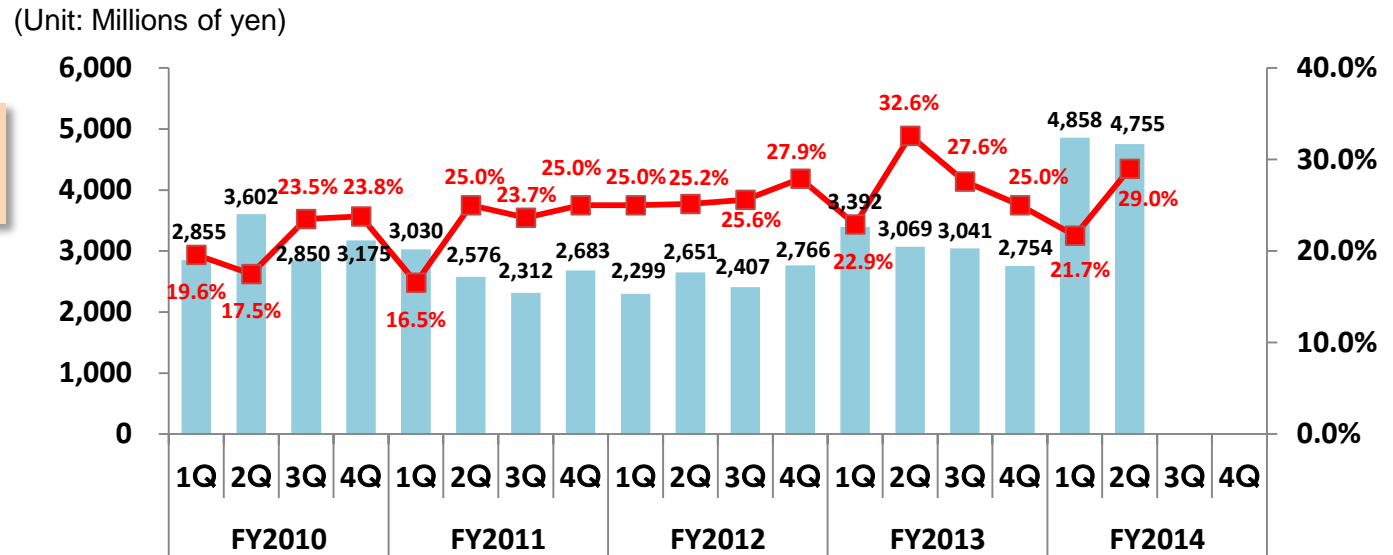
Unit: Millions of yen

		FY13		FY 14 (Initial budget)			FY 14 (1H actual)			
		2Q Cumulative	Component Ratio	Initial full-year budget	Component Ratio	Initial 1H budget	Component Ratio	Actual	Component Ratio	Completion Rate
<b>Net sales</b>	Property Management Service	5,516	85.4%	11,378	83.4%	5,709	83.4%	6,149	64.0%	54.0%
	Storage management	2,775	43.0%	6,306	46.2%	3,060	44.7%	3,100	32.3%	49.2%
	Storage liquidation	1,250	19.4%	2,296	16.8%	1,303	19.0%	1,618	16.8%	70.5%
	Parking	423	6.6%	569	4.2%	277	4.1%	272	2.8%	48.0%
	Asset	758	11.7%	1,572	11.5%	758	11.1%	823	8.6%	52.4%
	SOHO	292	4.5%	620	4.5%	302	4.4%	324	3.4%	52.4%
	Other	14	0.2%	13	0.1%	7	0.1%	8	0.1%	66.0%
	Property Revitalization & Liquidation Service	945	14.6%	2,272	16.6%	1,136	16.6%	3,464	36.0%	152.5%
<b>Total</b>	<b>6,461</b>	<b>100.0%</b>	<b>13,651</b>	<b>100.0%</b>	<b>6,845</b>	<b>100%</b>	<b>9,613</b>	<b>100.0%</b>	<b>70.4%</b>	
<b>Gross profit</b>	Property Management Service	1,678	94.5%	3,298	93.0%	1,662	93.0%	1,927	79.2%	58.4%
	Storage management	827	46.6%	1,758	49.5%	873	48.9%	871	35.8%	49.6%
	Storage liquidation	512	28.9%	714	20.1%	400	22.4%	601	24.7%	84.3%
	Parking	19	1.1%	85	2.4%	41	2.3%	46	1.9%	54.5%
	Asset	255	14.4%	589	16.6%	41	15.3%	302	12.5%	51.4%
	SOHO	63	3.6%	138	3.9%	65	3.7%	103	4.2%	74.7%
	Other	(0)	(0.0)%	13	0.4%	7	0.4%	1	0.1%	11.3%
	Property Revitalization & Liquidation Service	98	5.6%	250	7.0%	125	6.9%	505	20.8%	202.2%
<b>Total</b>	<b>1,777</b>	<b>100.0%</b>	<b>3,548</b>	<b>100.0%</b>	<b>1,787</b>	<b>100%</b>	<b>2,432</b>	<b>100.0%</b>	<b>68.6%</b>	

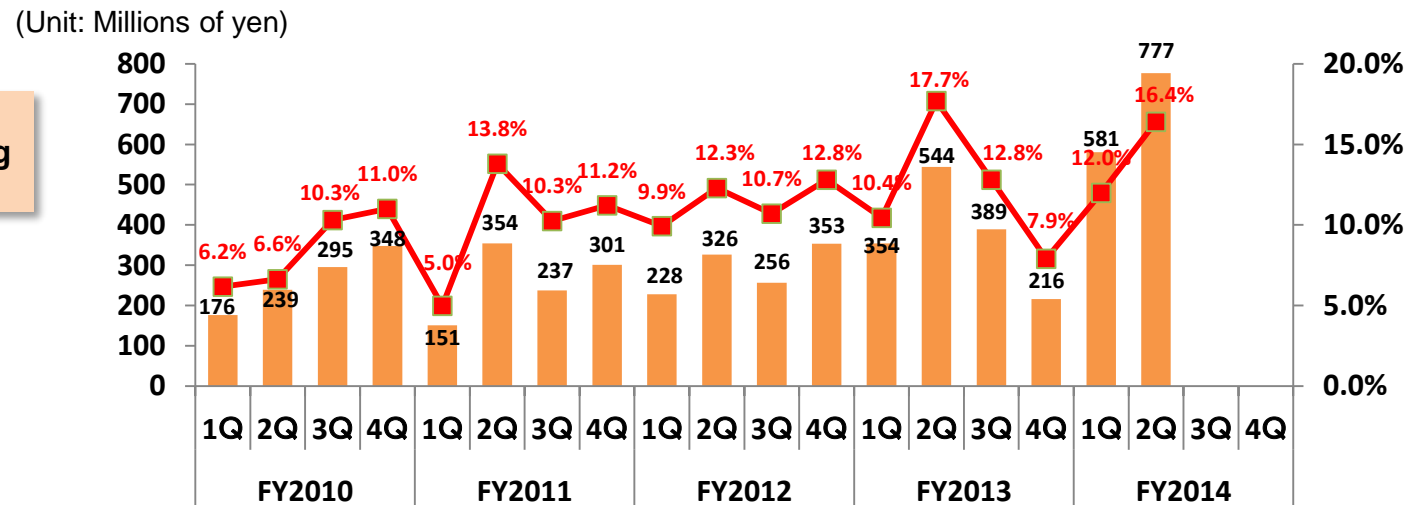
# Quarterly Net Sales and Operating Income

Net sales margin and operating profit margin remained stable overall.

Trends in net sales and gross profit margin



Trends in operating income and operating income ratio



Note: Figures from fiscal 2010 and earlier are on a consolidated basis. Figures from fiscal 2011 and later are non-consolidated.

# Breakdown of Non-Operating and Extraordinary Profit and Loss

Non-operating expenses increased as a result of a derivative contract cancellation loss. However, extraordinary income rose on an increase in gain on sales of property, plant and equipment.

## Non-operating income

Interest income ¥6 million

## Non-operating expenses

Interest expenses ¥78 million  
Derivative contract cancellation loss ¥25 million

## Extraordinary income

Gain on sales of noncurrent assets ¥108 million

## Extraordinary loss

Loss on retirement of noncurrent assets ¥8 million

Unit: Millions of yen

Step income	2013/3 1Q period	2013/6 2Q period	2013/6 2Q cumulative	2014/3 1Q period	2014/6 2Q period	2014/6 2Q cumulative	Variance	% Change
Operating income	354	544	898	581	777	1,359	460	51.2
Non-operating income	29	17	47	14	4	19	(28)	(59.8)
Non-operating expenses	36	43	80	45	75	120	40	50.1
Ordinary income	346	518	865	550	706	1,257	391	45.2
Extraordinary income	-	17	17	104	4	108	91	527.7
Extraordinary loss	4	8	12	6	2	8	(3)	(27.5)
Income before income taxes	342	527	870	648	708	1,356	486	55.9
Income taxes — current	29	63	93	44	63	107	14	15.5
Income taxes — deferred	18	(24)	(5)	147	209	357	363	—
Net income	294	488	782	456	435	891	108	13.9

# Financial Position

Owned capital further increased on reduction in interest-bearing debt and higher earnings.

## Financial Position

As of June 30, 2014

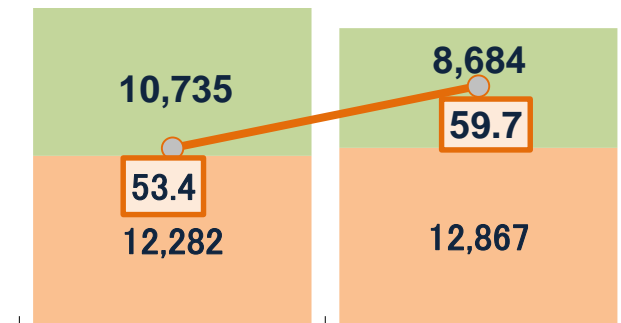
\*Figures in parentheses indicate changes from the end of December 31, 2013.

<b>Total assets</b> <b>¥21.55 billion</b> (− ¥ 1.47 billion)	<b>Liabilities</b> <b>¥8.68 billion</b> (− ¥ 2.05 billion)	<b>Liabilities</b>
	<b>Net assets</b> <b>¥12.87 billion</b> (+ ¥ 0.59 billion)	<b>Net assets</b>

## Liabilities, net assets, equity ratio

(Millions of yen)

Net assets Liabilities Equity ratio (%)



(Millions of yen)	Dec. 31, 2013	Jun. 30, 2014
<b>Current assets</b>	<b>10,828</b>	<b>9,855</b>
<b>Noncurrent assets</b>	<b>12,189</b>	<b>11,695</b>
<b>Total assets</b>	<b>23,017</b>	<b>21,551</b>
<b>Current liabilities</b>	<b>3,207</b>	<b>3,462</b>
<b>Noncurrent liabilities</b>	<b>7,527</b>	<b>5,222</b>
<b>Total liabilities</b>	<b>10,735</b>	<b>8,684</b>
<b>Net assets</b>	<b>12,282</b>	<b>12,867</b>

Increase in cash and deposits      ¥ 1.77 billion  
 Decrease in real estate for sale      ¥ 3.00 billion

Decrease in long-term loans payable      ¥2.16 billion

Increase in retained earnings      ¥ 0.58 billion

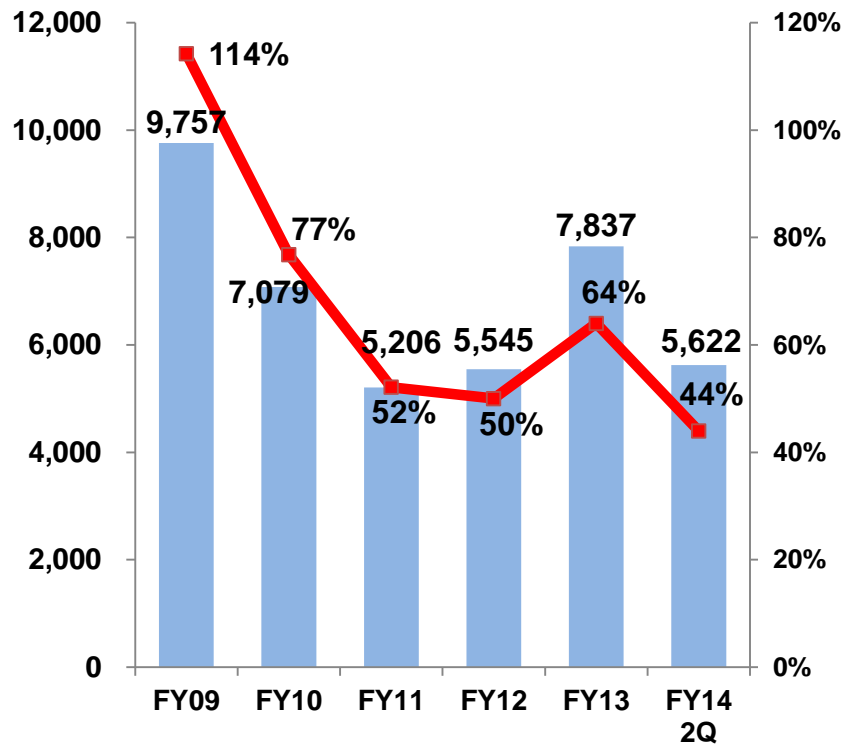
Note: The breakdown of real estate held is presented on page 51 of the accompanying material.

# Interest-Bearing Debt, Total Capital, and Shareholders' Equity

Sound financial condition maintained by repayment of borrowings to lower interest-bearing debt, and increasing shareholders' equity.

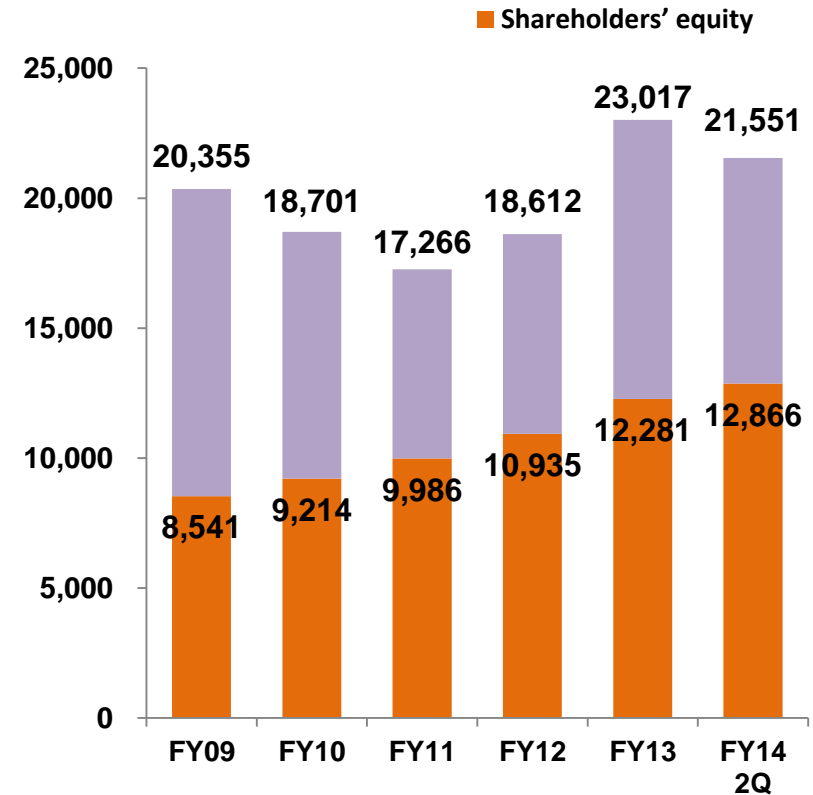
## Interest-bearing debt and interest-bearing debt ratio

(Unit: Millions of yen)



## Total capital and shareholders' equity

(Unit: Millions of yen)



Although expenditures rose on repayment of long-term debt, cash and cash equivalents increased as a result of higher earnings, and a decrease in expenditures from acquisition of property, plant and equipment.

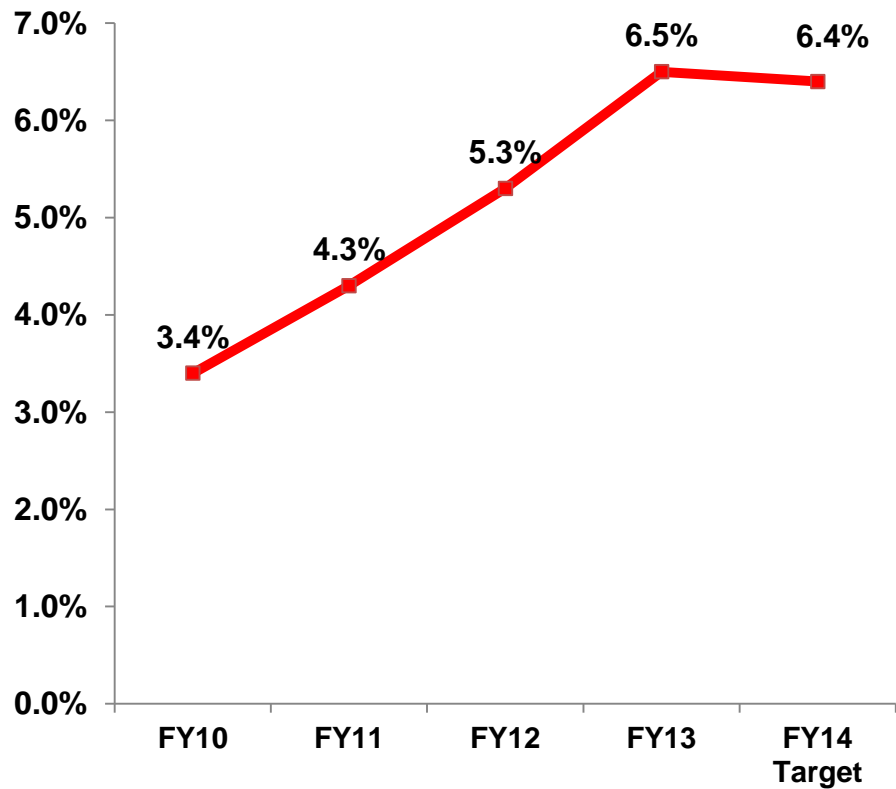
Unit: Millions of yen

	FY13 2Q	FY14 2Q	
<b>Cash flows from operating activities</b>	1,462	4,291	Income before income taxes ¥1.36 billion Decrease in inventories ¥3.00 billion
<b>Cash flows from investing activities</b>	(2,330)	0	Purchase of noncurrent assets ¥(0.12) billion Proceeds of sales of noncurrent assets ¥0.10 billion
<b>Cash flows from financing activities</b>	1,220	(2,519)	Repayment of long-term loans payable ¥(1.93) billion
<b>Cash and cash equivalents at the end of period</b>	3,436	5,364	

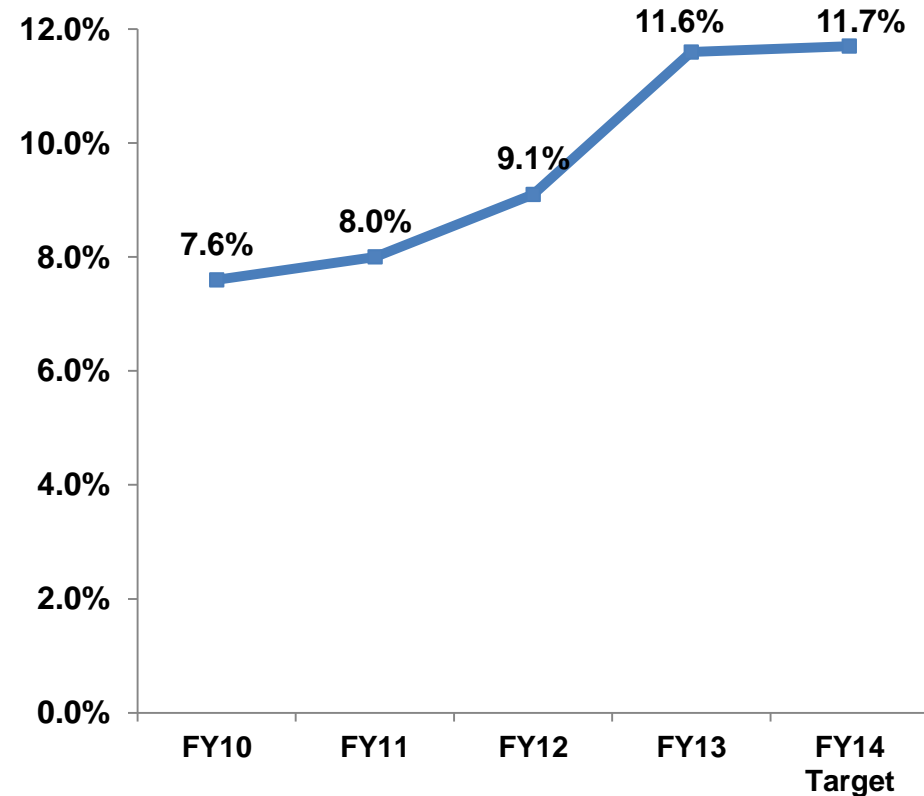
# Capital Efficiency

Capital efficiency rose further on higher profits.

### Return on assets (ROA)



### Return on shareholders' equity (ROE)



\* Target figures for FY2014 are calculated based on the revised results forecast which was announced on July 29, 2014.



## **Part II**

# **Summary of FY14 2Q and Full-Year Outlook**

Ordinary income rose 45.2% YoY  
¥0.89 billion (plan) → ¥1.26 billion (actual)

- ✓ Steady increase in business results
- ✓ Sales rose 48.8% as a result of the policy of proactive openings of storage locations, and results for the Property Revitalization & Liquidation Service segment that exceeded plan
- ✓ Operating income rose 51.2%, ordinary income 45.2%, and net income 13.9%

## Steady progress with management issues

- ✓ As the leading company in the storage business, have a product structure unrivaled by the competition, invest in systems, and expand both the number of stores and sales.
- ✓ Build a structure for longer term investment of earnings gained from the storage business and other “stock-type” (service oriented) businesses.
- ✓ Begin establishing local offices specializing in establishing storage locations and recruiting customers. Transition to an independent profitability structure.
- ✓ Effectively implement unique work practices and human resource development systems, including the Arealink Master Program, Chip System, and front-loaded scheduling

# Storage Business: Total Units, Units in Use, and Utilization Rate

Accelerated program of business openings has maintained the higher utilization rate. Organizational change from call centers to storage sales has enhanced customer satisfaction with storage operations, and raised the utilization rate. Accelerate storage location openings by establishing local business offices.

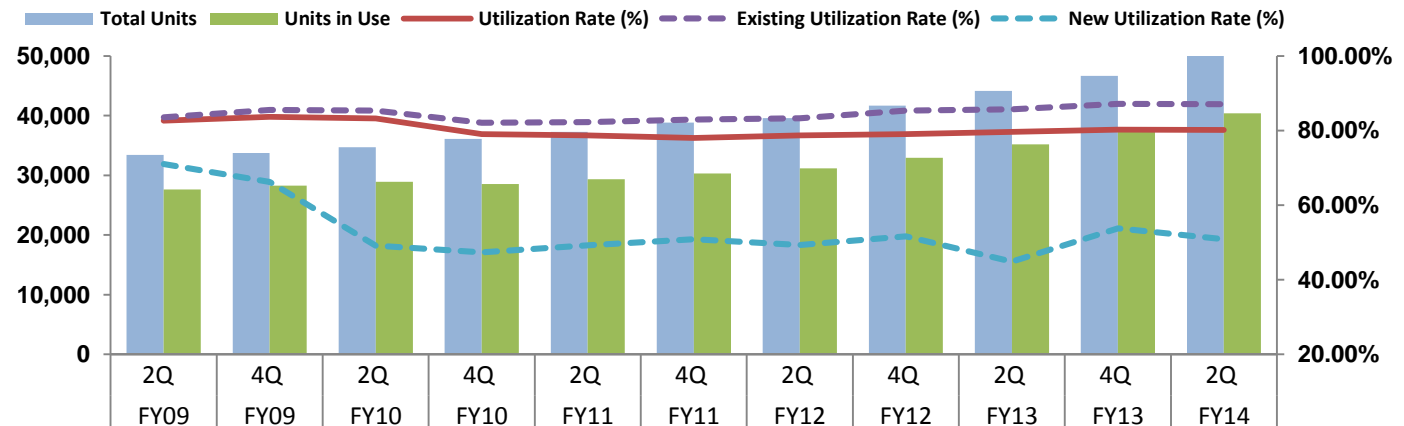
## ■ Storage (management)

Local offices open storage locations and manage operations. Head office manages end user recruitment, contracts and billing, and telephone reception in order to enhance operational efficiency and customer satisfaction.

## ■ Storage (liquidation)

We are planning a full-fledged business expansion from the Tokyo metropolitan area to major suburban and regional areas, which will increase the number of business locations from approximately 5,000 in 2013, to 9,000 in 2016.

### Total Units, Units in Use, and Utilization Rate



	2Q FY09	4Q FY09	2Q FY10	4Q FY10	2Q FY11	4Q FY11	2Q FY12	4Q FY12	2Q FY13	4Q FY13	2Q FY14
Total Units	33,433	33,753	34,723	36,131	37,267	38,838	39,614	41,698	44,138	46,686	50,422
Units in Use	27,646	28,258	28,917	28,562	29,340	30,290	31,188	32,968	35,177	37,499	40,407
Utilization Rate (%)	82.69%	83.72%	83.28%	79.05%	78.73%	77.99%	78.73%	79.06%	79.70%	80.22%	80.14%
Existing Utilization Rate (%)	83.60%	85.53%	85.33%	82.11%	82.28%	83.00%	83.34%	85.41%	85.73%	87.15%	87.06%
New Utilization Rate (%)	71.07%	66.19%	49.11%	47.36%	49.20%	50.85%	49.30%	51.61%	44.86%	53.77%	50.90%

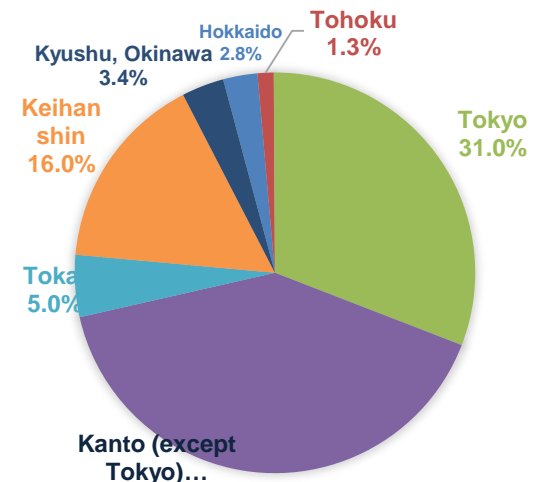
\* Existing: Units after more than two years since they opened  
New: Units after less than two years since they opened

# Hello Storage Business Openings by Region

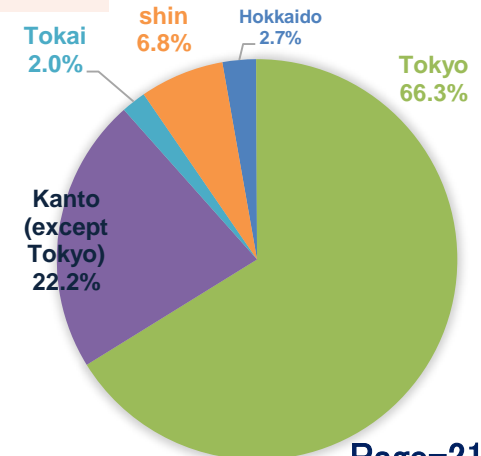
Establish 35 locations (branch offices and business offices) nationwide, aiming for a 30% domestic market share, and accelerate storage location openings.

Prefecture	Containers	Storage Rooms	Total	Proportion of Total
Hokkaido	965	422	1,387	2.8%
Miyagi	454	—	454	0.9%
Ibaraki	256	—	256	0.5%
Tochigi	62	—	62	0.1%
Gunma <sup>NEW</sup>	44	—	44	0.1%
Saitama	4,865	672	5,537	11.0%
Chiba	6,391	329	6,720	13.3%
Tokyo	10,785	10,335	21,120	41.9%
Kanagawa	2,507	2,469	4,976	9.9%
Gifu	169	—	169	0.3%
Shizuoka	330	—	330	0.7%
Aichi	1,089	262	1,351	2.7%
Mie	154	50	204	0.4%
Kyoto	572	154	726	1.4%
Osaka	2,231	859	3,090	6.1%
Hyogo	2,291	47	2,338	4.6%
Nara	469	—	469	0.9%
Kagawa <sup>NEW</sup>	30	—	30	0.1%
Fukuoka	540	—	540	1.1%
Kumamoto	48	—	48	0.1%
Oita	26	—	26	0.1%
Kagoshima	372	—	372	0.7%
Okinawa	173	—	173	0.3%
<b>Total</b>	<b>34,823</b>	<b>15,599</b>	<b>50,422</b>	<b>100.0%</b>

### Container



### Storage rooms



# Main Measures for FY14 2H (1)

## ✓ Differentiate Hello Storage

- Strengthen brand through proactive opening (single building and storage warehouses)
- Expand the industry's first three-minute, 24-hour contracting system (24-hour service through automated contracting)
- Advance the business model by introducing branch offices and business offices
- Accelerate openings (40,000 units annually) – Open 35 new locations, including business offices and branch offices, within 4-5 years, centering on densely populated areas

## ✓ Actively expand the number of rental meeting rooms

- Open 20 locations in the second half, aiming for 65 locations nationwide by December 2014
- Strengthen openings of prime location lease types

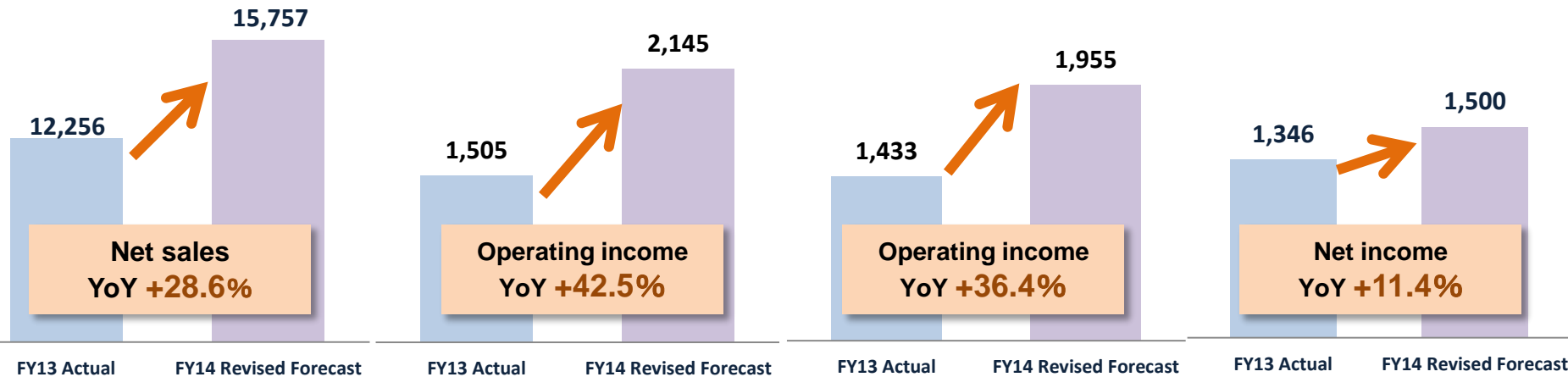
# Main Measures for FY14 2H (2)

- ✓ Establish a future real estate model
  - Adapt to the cycle of variation in property values
  
- ✓ Continue human resource development
  - Promote personnel training by introducing a branch office and business office system
  - Continue to promote future manager training with independent profitability system for business offices
  - Hold project review meetings for teams, and strengthen communication between employees
  
- ✓ Make preparations for the establishment of the new Arealink Consulting business
  - Create a business for asset management consulting, including inheritance, asset recompilation, property management, real estate sales

# Full-Year Earnings Outlook

Initial forecasts revised upward, for double-digit growth in both revenue and earnings

Unit: Millions of yen



	FY2013		FY2014				YoY	
	Actual (A)	(%)	Previous Forecast	(%)	Revised Forecast (B)	(%)	Variance (B-A)	% Change
(Millions of yen)								
Net sales	12,256	(100.0)	13,651	(100.0)	15,757	(100.0)	3,501	28.6%
Operating income	1,505	(12.3)	1,863	(13.7)	2,145	(13.6)	640	42.5%
Ordinary income	1,433	(11.7)	1,701	(12.5)	1,955	(12.4)	522	36.4%
Net income	1,346	(11.0)	1,500	(11.0)	1,500	(9.5)	154	11.4%
ROE (%)	11.6	—	11.7	—	11.7	—	0.1pt	—
ROA (%)	6.5	—	6.4	—	6.4	—	(0.1)pt	—



## Shareholder returns increased though both results-based dividends and growth

- ✓ Annual dividend of ¥2.8 per share for the fiscal year ending December 2014 (forecast)  
(Actual annual dividend per share for the fiscal year ended December 2013: ¥2.5)
- ✓ Target payout ratio between 20%-30%

# **Part-III**

## **Growth Strategies**

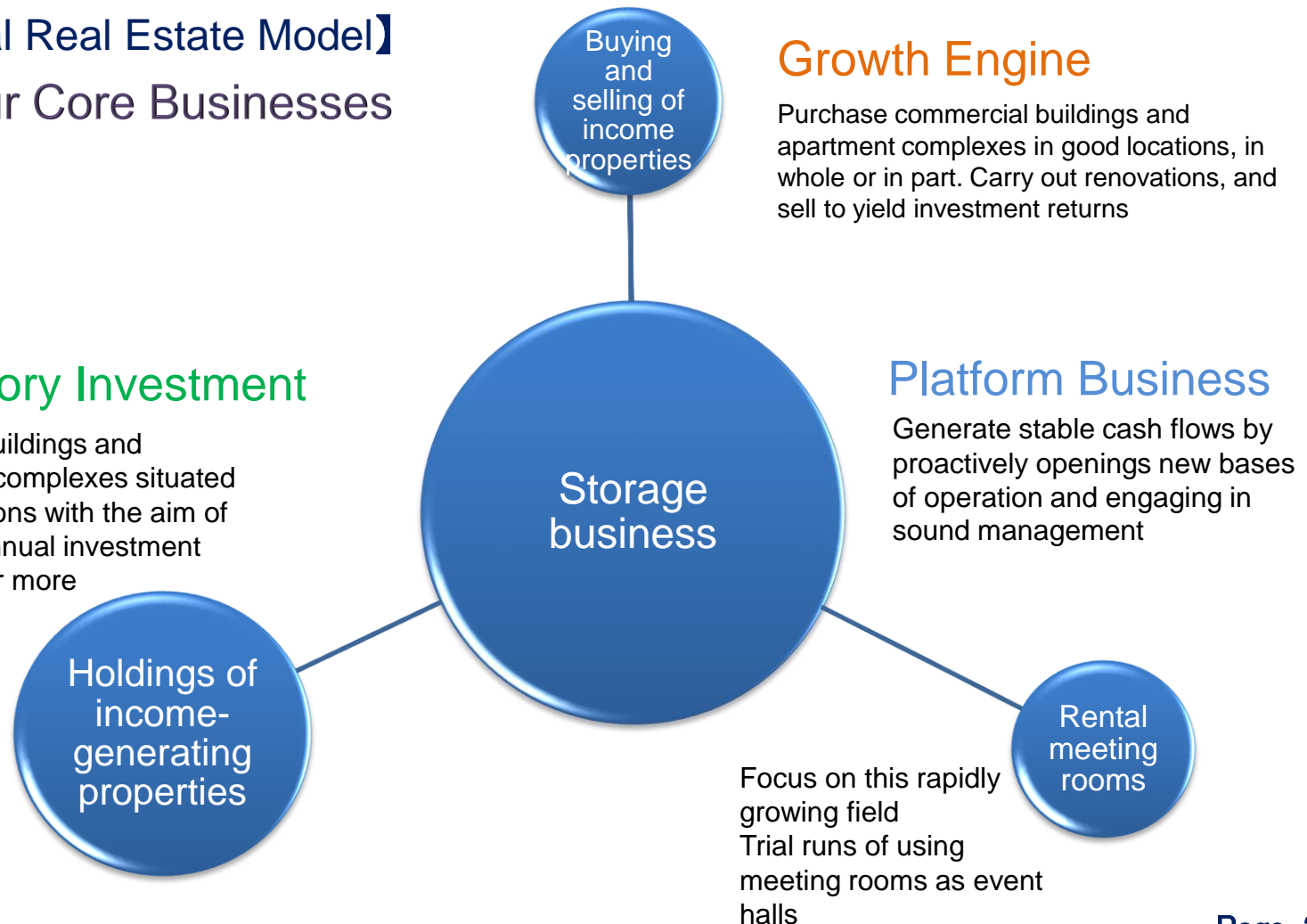
Synergies among our four core businesses provide a stable earnings foundation and high rate of growth

## 【Our Ideal Real Estate Model】

⇒ Four Core Businesses

### Anticipatory Investment

Purchase of buildings and condominium complexes situated in prime locations with the aim of securing an annual investment return of 8% or more



- ✓ Develop “Storage Buildings” and “Storage Warehouses” as flagship locations
  - Develop and differentiate stand-alone storage buildings along with existing “inside buildings” type
  - Utilize personnel during the slow periods in the real estate sales cycle
- ✓ Accelerate openings of new “Storage Buildings” and “Storage Warehouses”
  - Plan to open 10 locations in 2014, and 20 in 2015
  - Establish business locations (branch offices and business offices) in 35 cities over the next 4-5 years, centering on densely populated areas



Hello Storage Azamino (Kanagawa)



Hello Storage Yachiyo (Chiba)



Hello Storage Monzen-nakacho (Tokyo)

# Storage Business: Example of a “Storage Building” Type Unit

We are developing “storage building” type rental spaces in order to enhance visibility in urban areas, where storage needs are high.

Hello Storage Monzen-nakacho **NEW** opened on May 5, 2014

2-7-5 Botan, Koto-ku, Tokyo

Seven minute walk from Monzen-nakacho Station on the Toei Oedo Line

Business occupies all floors, from 1-7. Spaces include locker types (¥5,100), and closet types (¥14,800).



Side view



Front view

**NEW** New storage building openings

**Hello Storage Kita-ueno**

(Taito-ku, Tokyo) Opened July 16, 2014

**Hello Storage Yukigaya-otsuka  
(provisional name)**

(Ota-ku, Tokyo)

**Hello Storage Akihabara  
(provisional name)**

(Chiyoda-ku, Tokyo)

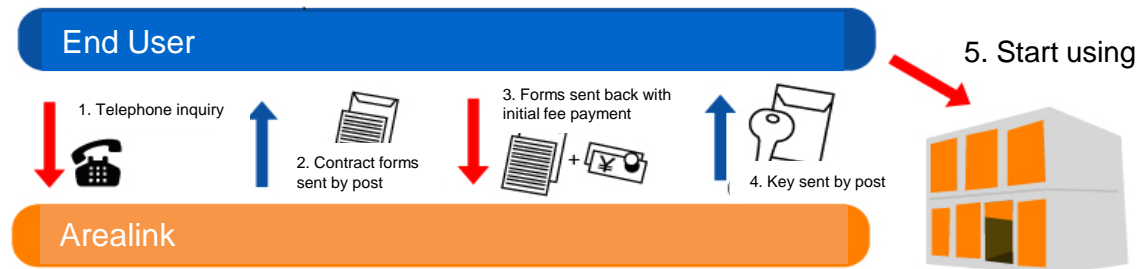
**Hello Storage Mitaka Nozaki 2**

(Mitaka-shi, Tokyo)

## ✓ Speed 3-Minute Contract

- Introduce “Speed 3-Minute Contract” (automated contract), the industry’s first web-based, 24-hour service for contract procedures
- Simple reservation and return using a credit card
- Possible to receive keys by the next business day

Previous Contract System



Speed 3-Minute Contract **NEW**



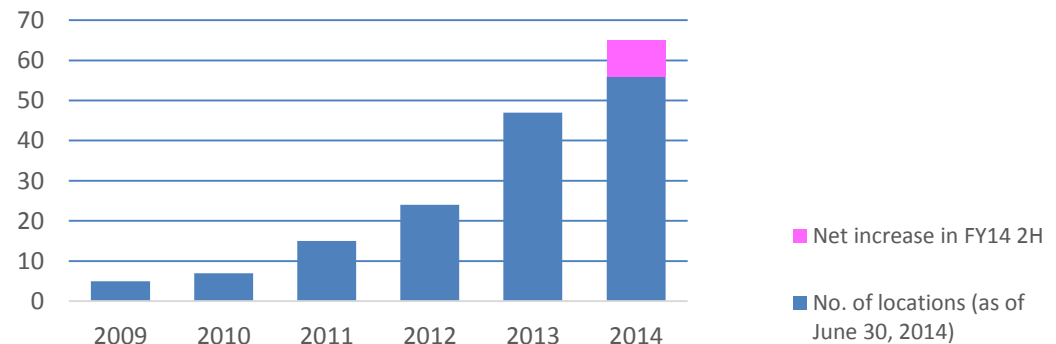
# Expansion in Rental Meeting Rooms and Coin Parking

- ✓ We are developing the Hello Meeting Room business nationwide with the aim of establishing a new earnings base, and being **the industry leader**.
  - Rental meeting room service launched in 2006, utilizing small and mid-sized office buildings, and vacant rooms in Tokyo, Yokohama, and Osaka.
  - Locations opened in Osaka in December 2013, and Nagoya in January 2014. New locations to be opened in central regional cities.
  - Planned openings in 2014: 25 properties nationwide, a net increase of 18, for a total of 65 locations.
  - Instead of the former method of opening locations on a piecemeal basis, we will rent properties with favorable qualities.



Hello Meeting Room Shinbashi (Tokyo)

Number of Locations



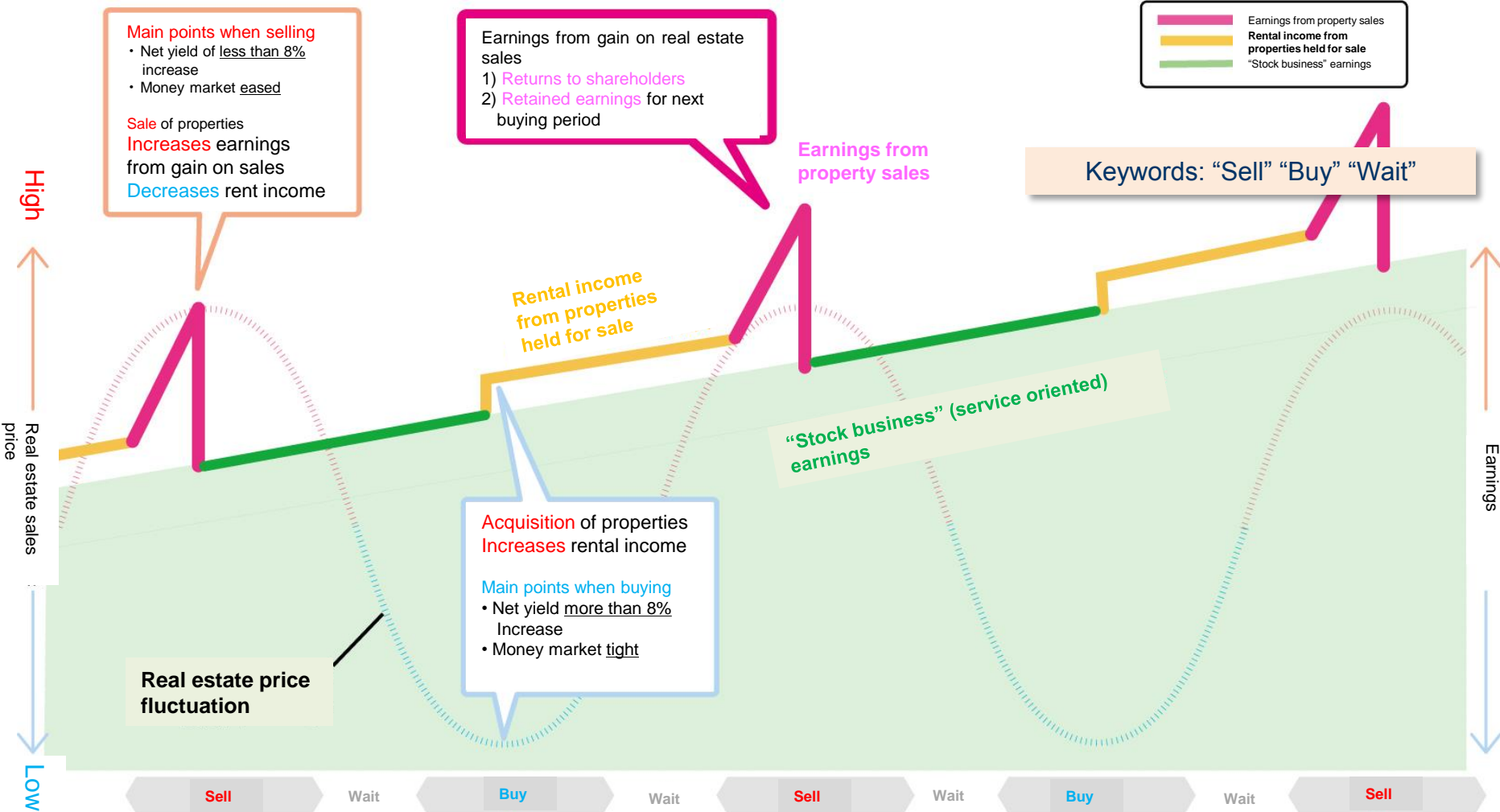
- ✓ We are creating mechanisms to **expand earnings** for Hello Parking.





# Ideal Real Estate Model (2)

## Arealink's Earnings Model

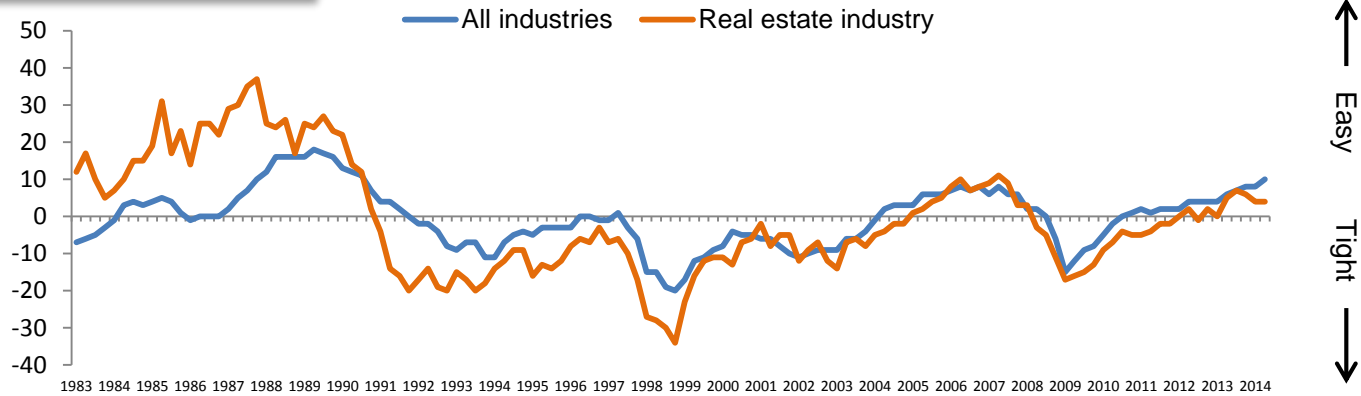


The “Sell-Buy-Wait” cycle for real estate sales

# Ideal Real Estate Model (3)

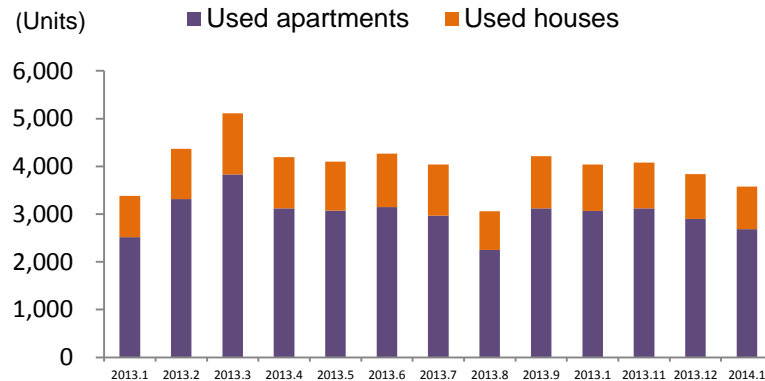
We conduct a demand analysis of the real estate market, including the status of corporate financing, newly-built and used apartments, and newly-built homes.

Financing Diffusion Index (DI)

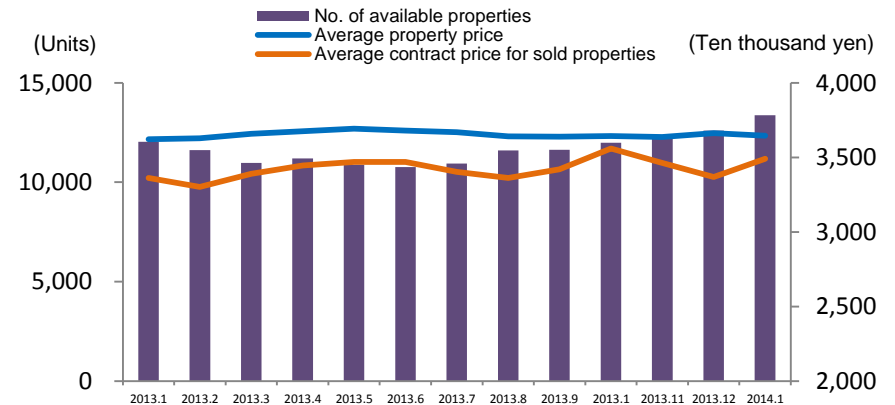


Source: Bank of Japan, Explanation of the Short-Term Economic Survey of Enterprises in Japan (*Tanken*) \* DI (Diffusion index): "easy" minus "tight"

Contracts concluded for used apartments and houses (Tokyo metropolitan area)



Supply of newly-built homes and average contract price (Tokyo metropolitan area)



Source: Real Estate Information Network for East Japan, monthly flash report "Market Watch" January 2014 Edition

# Front-loaded Annual Schedule to Achieve Earnings Targets

Clarify the points to focus on during each period of the front-loaded annual schedule

## First Half

**January – June: Buffer Period**  
**Sprinting start to achieve**  
**our target ahead of**  
**schedule**

- ✓ Implement sales strategies in a concerted manner as a company
- ✓ Form a buffer team
- ✓ Early property acquisition and business openings in the stock business

## Second Half

**July – September: Refresh and**  
**Sowing Seeds Period**  
**Sowing seed for the Furious**  
**Activity Period and for 2014**

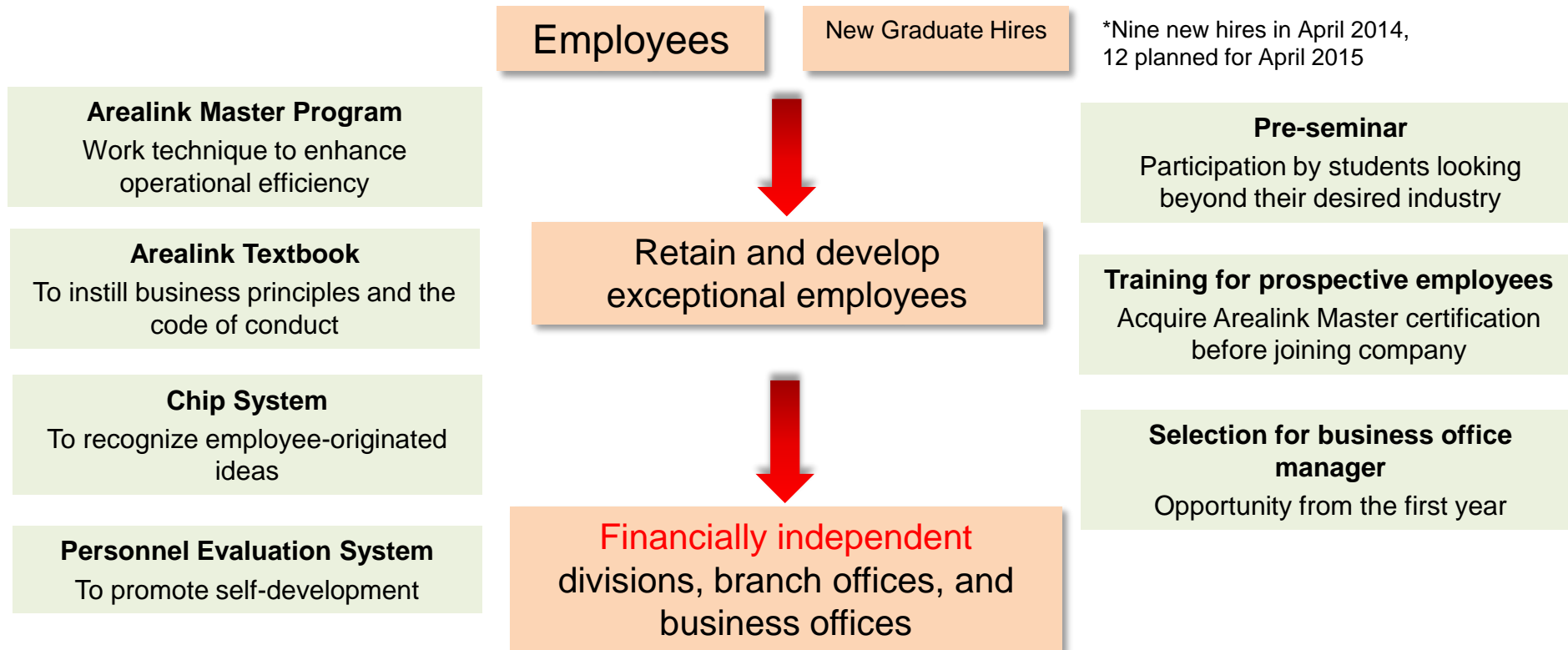
- ✓ Create a marketing list
- ✓ Maintenance of primary properties
- ✓ Cost reductions
- ✓ Improvement in C and D rank properties
- ✓ Enhance follow-up support for owners
- ✓ Strengthen network with property owners
- ✓ Simplify work for maintenance and administrative personnel

**October – December: Furious**  
**Activity Period**  
**Savings for the next year**

Prepare for sprinting start in the first half of the next year

# Human Resources Development

We are creating mechanisms to enhance capabilities, and the effectiveness of new graduate employees.



Arealink will expand to a network of 35 branch and business office locations by 2018. We are creating opportunities for young employees, and developing exceptional personnel.

Branch and business offices are classified into “S,” “M,” and “L” depending on the number of units managed.

The Tokyo Branch Office, which has the largest number of units under management, is managed by a new graduate hire who joined the firm four years ago.

Branch offices: Offices currently in Tokyo, Osaka, Chiba, Saitama, Kanagawa

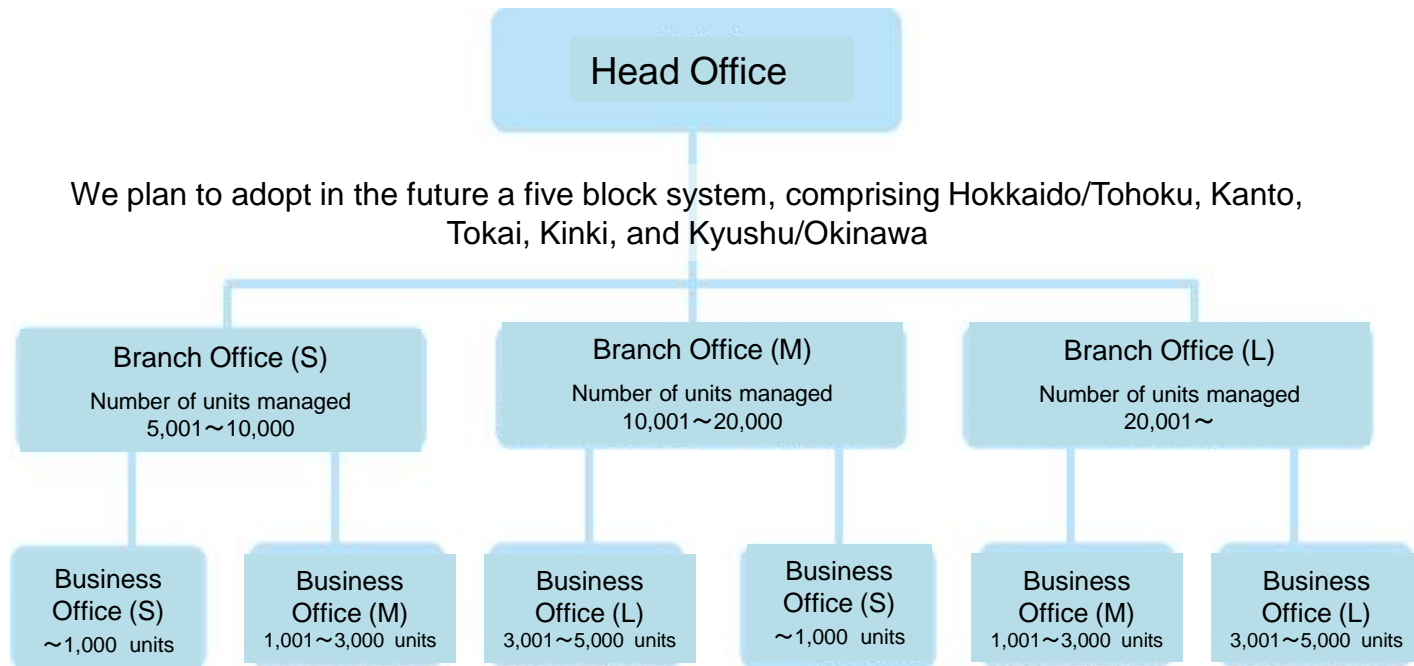
(\*the Chiba, Saitama, and Kanagawa offices were opened in May 2014)

Business offices: In addition to the existing Nagoya location, we are considering opening offices in Sendai and Fukuoka in the second half of 2014.

## Unrivaled organization and system

**Young employees** with 2-3 years of experience (22-25 years old) are **selected to head business offices**, and those with 5-6 years of experience (25-27 years old) to lead branch offices.

Example: A fourth-year new graduate hire was selected to head the Tokyo Branch Office, which manages the greatest number of units (L class office)



Young employees selected for promotion based on performance

Example promotions

Business Office (S) manager  
→ Business Office (M) manager

Business Office (L) manager  
→ Branch Office (S) manager

Branch Office (L) manager

→ **Block manager**

→ **Expert**

# New Business: Preparations to Launch “Arealink Consulting”

- ✓ New business targeting wealthy individuals, including asset management consulting for the Owners’ Club
  - Establish an Owners’ Club for owners of storage containers, land, buildings, and other assets
  - In future, provide consulting for asset management and minimizing taxes, capture business
  - Develop into a business for the wealthy, becoming a new earnings base
- ✓ Hold regular training sessions at the head office for branch office managers, business office managers, and employees, in order to strengthen consulting capabilities to owners



Sales training session



Quarterly newsletter Owners’ Shinbun

# Management Objectives

Company with an extremely stable, high rate of growth

- Target figures for FY16:

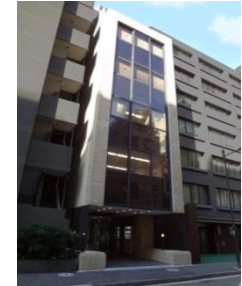
Net sales ¥16,187 million; Operating income ¥2,543 million

(Millions of yen)	FY13 Actual	FY16 Target	Variance	Average YoY Growth
Net sales	12,256	16,187	+3,931	+9.7%
Operating income	1,505	2,543	+1,038	+19.1%
Operating income ratio (%)	12.3	15.7	+3.4pt	—
Ordinary income	1,433	2,365	+931	+18.2%
Net income	1,346	1,453	+107	+2.6%
ROA (%)	6.5	5.5	(1.0) pt	—
Shareholders' equity ratio (%)	53.4	59.2	+5.3pt	—
Current ratio (%)	337.6	391.1	+53.5pt	—

Note: The lower target FY16 figure for ROA reflects projected corporate tax payments resulting from the dissolution of tax loss carried forward.



# Medium-Term Management Plan



Bringing the world convenience, enjoyment,  
and excitement

- Become the acknowledged leader in the storage business in terms of both market share and quality
- Stock-type business comprising storage, assets, and rental meeting rooms
- Enhance operational efficiency, and ensure a good work-life balance
- Enhance capital efficiency and proactively provide shareholder returns.

Satisfy customers, shareholders, and employees, and create an  
“Exciting Company”

Achieve net sales of ¥80 billion, ordinary income of  
¥10 billion and **a 30% or more domestic market share**  
within 10 years!

# Exciting Company

Bringing the world convenience,  
enjoyment, and excitement

# Part-IV

# Reference Material

# Major Indicators for the Past Six Years

(Unit: Millions of yen)

	FY08	% Change	FY09	% Change	FY10	% Change	FY11	% Change	FY12	% Change	FY13
Net sales	16,347	-25.5%	12,183	-8.5%	11,143	-4.8%	10,603	-4.5%	10,124	+21.1%	12,256
Gross profit	1,912	21.2%	2,317	-6.1%	2,176	+8.7%	2,365	+11.2%	2,629	+26.8%	3,306
Gross profit margin (%)	11.7	+7.3pt	19.0	+0.5pt	19.5	+2.8pt	22.3	+3.5pt	26.0	+1.2pt	26.9
SG&A expenses	1,970	-39.3%	1,196	-2.3%	1,169	+12.9%	1,320	+10.9%	1,464	+24.9%	1,800
Operating income	(58)	—	1,121	-10.2%	1,006	+3.8%	1,044	+11.6%	1,165	+29.2%	1,505
Operating income ratio (%)	(0.4)	—	9.2	-0.2pt	9.0	+0.8pt	9.8	+1.7pt	11.5	+0.8pt	12.3
Ordinary income	(516)	—	827	-6.3%	774	+23.1%	953	+12.8%	1,075	+33.3%	1,433
Net income	(8,254)	—	557	+20.8%	673	+14.7%	772	+22.7%	948	+42.0%	1,346
ROA (%)	(27.1)	—	2.7	+0.7pt	3.4	+0.9pt	4.3	+1.0pt	5.3	+1.2pt	6.5
ROE (%)	(74.1)	—	7.3	+0.3pt	7.6	+0.4pt	8.0	+1.1pt	9.1	+2.5pt	11.6
Interest-bearing debt	12,601	-22.6%	9,757	-27.4%	7,079	-26.5%	5,206	+6.5%	5,545	+41.3%	7,837
Total assets	21,600	-5.8%	20,355	-8.1%	18,701	-7.7%	17,266	+7.8%	18,612	+23.7%	23,017
Net assets	6,733	+26.6%	8,523	8.1%	9,214	8.4%	9,987	+9.5%	10,935	+12.3%	12,282
Shareholders' equity ratio (%)	31.2	+10.7pt	41.9	+7.4pt	49.3	+8.5pt	57.8	+1.0pt	58.8	(5.4)pt	53.4
Net income per share (Yen)	(85.07)	—	5.38	+1.9%	5.48	+14.7%	6.29	+22.7%	7.72	+42.0%	10.97
Net assets per share (Yen)	69.76	-0.5%	69.43	+8.1%	75.06	+8.4%	81.35	+9.5%	89.08	+12.3%	100.05
Number of employees	69	-10.1%	62	-3.2%	60	+21.7%	73	+12.3%	82	+19.5%	98

On July 1, 2013, the Company conducted a stock split at a ratio of 100 shares for each of the Company's common shares.

Accordingly, net income per share and net assets per share before 2012 have been calculated assuming that the subject stock split was conducted at the beginning of the previous fiscal year.

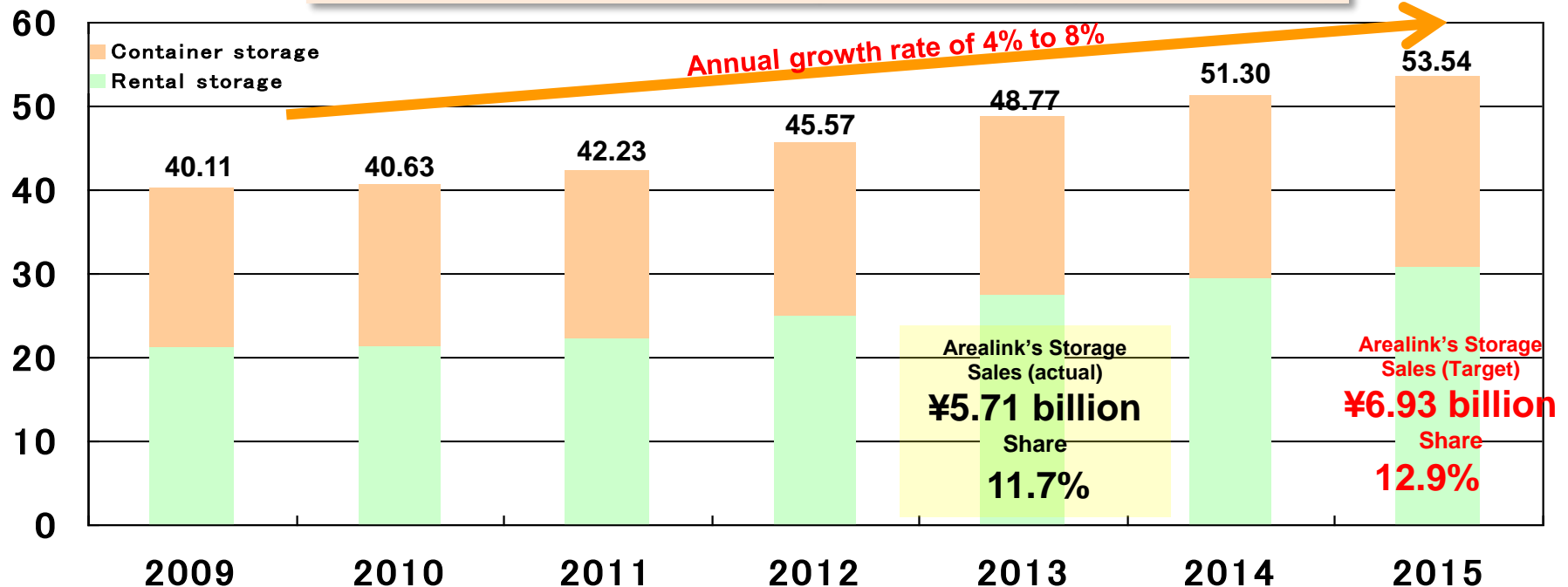
# Storage Business: Market Scale Forecasts (1)

The Japanese self-storage market is expected to expand to ¥53.54 billion by 2015.

Arealink expects to maintain its leading market share of 12.9%.

- Scale of the Japanese self-storage market (2015 estimate)      ¥53.54 billion
- Arealink's self-storage net sales (2015 target)                      ¥6.93 billion
- Arealink's market share (net sales)                                      12.9% (No.1 in Japan)

Market scale of the self-storage business (Japan nationwide)

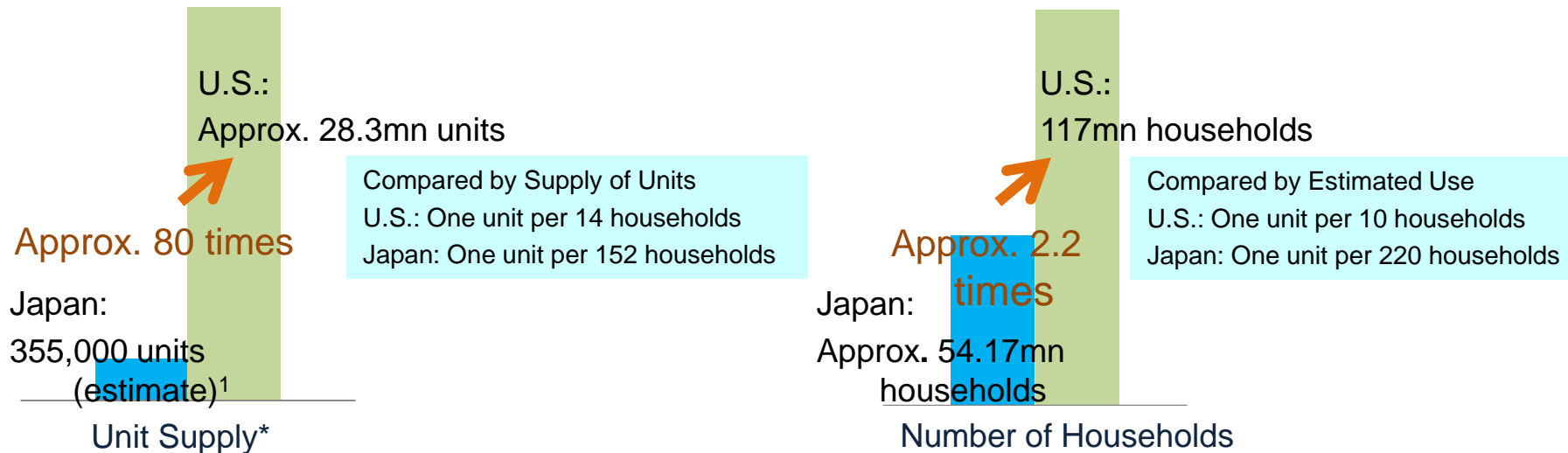


# Storage Business: Market Scale Forecasts (2)

Japan's storage market is expected to grow to be on a par with the U.S. in the future.

- Supply of units per household is less than one-tenth that of the U.S.
- The U.S. market is worth approximately ¥1.76 trillion, around 40 times that of Japan
- We will uncover latent demand with expectations of market growth

## Comparison between Japan and U.S.



Figures for the market scale estimate and unit supply are estimated figures for 2012.

Note 1: Number of units for rental storage space, as opposed to the warehouse industry

Source: Yano Research Institute, "Thorough Survey of the Growing Self-Storage Business" 2013 Edition (Japan) Self Storage Almanac 2013 (U.S.)  
 Currency converted at ¥80/USD (2011 average)

# Storage Business: Competitive Environment

## ■ Top Three Companies in the U.S. Self-Storage Market (Fiscal 2012)

Rank	Company Name	No. of Locations	No. of Units	Market Share (by No. of Units)
1	Public Storage	2,253	1,350,000	5.43%
2	Extra Space Storage	882	584,804	2.35%
3	U-Haul	1,144	428,334	1.72%
Top 10 companies		5,773	3,267,596	13.14%
Total		50,859	24,870,000	100%

Source: Self Storage Almanac 2013

## ■ Overview of Public Storage, the Largest Self-Storage Company in the U.S.

- Storage net sales      ¥208.6 billion
- Net income              ¥110.8 billion

Source: Company's Annual Report 2013 (Currency converted at ¥105.3USD (closing price as of December 2013))

## ■ Arealink's Position in Japan's Self-Storage Market

	Company Name	No. of Locations	No. of Units	Market Share (by No. of Units)
No.1	<b>Arealink</b>	<b>798</b>	<b>44,929</b>	<b>12.7%</b>
No.2	<b>Company A</b>	<b>749</b>	<b>36,631</b>	<b>10.4%</b>
No.3	<b>Company B</b>	<b>47</b>	<b>26,192</b>	<b>7.4%</b>
No.4	<b>Company C</b>	<b>391</b>	<b>20,646</b>	<b>5.8%</b>
No.5	<b>Company D</b>	<b>255</b>	<b>11,445</b>	<b>3.2%</b>
<b>Total</b>		<b>7,419</b>	<b>352,929</b>	<b>100%</b>

Source: Yano Research Institute, "Thorough Survey of the Growing Self-Storage Business" 2013 Edition (Japan)



# Examples of self-storage locations / Outdoor container type



Sendai Tago (Miyagi)



Sendai Higashinakata (Miyagi)



Misato 2 (Saitama)



Wako5 (Saitama)



Higashifuchu (Tokyo)



Hino, Koshu Kaido (Tokyo)



Kodaira 3 (Tokyo)



Ariake, Toyosu, Shinonome (Tokyo)



Higashikasai (Tokyo)



Yotsugi4 (Tokyo)



Higashikurume2 (Tokyo)



Machida Oyamagaoka (Tokyo)



Hachioji 4 (Tokyo)



Utsunomiya Joto (Tochigi)



Mito Himeko (Ibaraki)



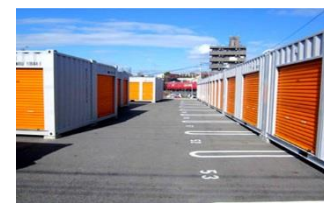
Yokosuka Kinugawa Inter (Kanagawa)



Motsumiyoshi (Kanagawa)



Hamamatsu Minamiasada (Shizuoka)



Owari Setoekimae (Aichi)



Kyoto Hachiman (Kyoto)



Izumi Fuchu (Osaka)



Nara Sahoda (Nara)



Akashinishi2 (Hyogo)



Takamastu Gotocho (Kagawa)

NEW : Newly opened in 2014



# Examples of self-storage locations / Indoor building type



Ageo (Saitama)



Shimoichiai (Tokyo)



Hashimoto (Tokyo)



Kouenji Kokashita2 (Tokyo)



Monzen-nakacho (Tokyo)



Adachi Takenozuka2 (Tokyo)



Adachi Higashiiko (Tokyo)



Nakajujo (Tokyo)



Shinonome (Tokyo)



Shinjuku Yotsuya 3-Chome 2 (Tokyo)



Minamiazabu (Tokyo)



Iidabashi (Tokyo)



Musashikoyama1 (Tokyo)



Shjbuyahoncho (Tokyo)



Yokohama Kannai (Kanagawa)



Yokohama Aobadai (Kanagawa)



Mukogaokayuen (Kanagawa)



Azamino (Kanagawa)



Nagoya Higashikataha (Aichi)



Kyoto Fushimi (Kyoto)



Kyoto Shjokarasuma (Kyoto)



Osaka Edobori (Osaka)



Tanimachi 4-Chome (Osaka)



Amagasaki (Hyogo)

NEW : Newly opened in 2014

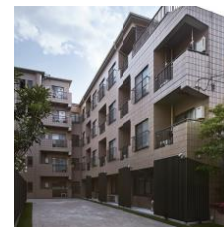
# Real Estate Sales: Strategies and Measures

Expand revenue and earnings through planned purchases of income properties, centering on commercial and office buildings

## Investment strategy

- Purchase of high-yield products as well as buildings and condominium complexes situated in prime locations; renovation and sale by individual floors and lots

## Major properties during the subject period



**Kojimachi, Chiyoda-ku, Tokyo**  
Single building, stores and offices  
¥810 million

**Honmachi, Shibuya-ku, Tokyo**  
Single building, stores and offices  
¥675 million

# Breakdown of Real Estate Holdings

## Main Properties (partial list)

Property Name	Location	Purpose	Book Value (Land and Structure)  Unit: ¥mn
Reale Ichigaya	Shinjuku Ward, Tokyo	Residence	1,656
Kanda BM Building	Chiyoda Ward, Tokyo	Head Office, store	1,026
Kanda Kyodo Building	Chiyoda Ward, Tokyo	Office	905
Ginza 6-Chome Idei Building	Chuo Ward, Tokyo	Office	888
Best Inn Omihachiman	Omihachiman City, Shiga Pref.	Hotel	468
TSM Building	Edogawa Ward, Tokyo	Office, warehouse	415
Best Inn Kashima	Kamisu City, Ibaraki Pref.	Hotel	401
FC Chiba Building	Chiba City, Chiba Pref.	Office	335
Best Inn Uozu	Uozu City, Toyama Pref.	Hotel	298

The earnings forecasts, predictions, strategies, and other information presented in this report are as of the time of preparation. The report was prepared based on information reasonably available to the Company, with determinations made within foreseeable bounds.

However, there are risks that that actual performance may differ from the earnings forecasts in this report as a result of unforeseeable events and results.

The Company makes an effort to proactively disclose information considered important to investors, but readers are strongly advised to avoid decisions that place undue reliance solely on the earnings forecasts presented in this report.

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