# Summary of Earnings Report for the Fiscal Year Ended December 31, 2022

February 10, 2023

Name of listed company: A.D.Works Group Co., Ltd. Listed stock exchange: Tokyo Stock Exchange
Code: 2982 URL https://www.adwg.co.jp/
Representative: Hideo Tanaka, President and CEO
Contact: Katsutoshi Hosoya, Senior Managing Director and CFO TEL: +81-(0) 3-5251-7641
Scheduled date for the Ordinary General Meeting of Shareholders: March 28, 2023 Scheduled date of dividend payment: March 13, 2023
Scheduled date of filing: March 28, 2023
Additional material of financial results: Yes
Results meeting: Yes（For analysts and institutional investors）

(Millions of yen, rounded down)

## 1. Consolidated Results for the Fiscal Year Ended December 31, 2022 (January 1, 2022–December 31, 2022)

(1) Consolidated business results (cumulative)

(%: Year-on-year comparison)

| | Net Sales | | EBITDA | | Operating Income | | Ordinary Income | | Net income attributable to owners of parent | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Fiscal year ended December 31, 2022 | 27,856 | 11.6 | 1,515 | 41.2 | 1,376 | 47.5 | 953 | 46.6 | 527 | 68.8 |
| Fiscal year ended December 31, 2021 | 24,961 | 48.2 | 1,073 | 41.4 | 933 | 44.5 | 650 | 52.2 | 312 | 17.8 |

(Notes) 1. Comprehensive Income: Year ended December 31, 2022 1,061 Million yen (57.3%) Year ended December 31, 2021 674 Million yen (927.4%)

| | Net Income per Share | Diluted Net Income per Share | Net Income on Equity | Ordinary Income on Total Assets | Operating Income Margin |
|---|---|---|---|---|---|
| | Yen | Yen | % | % | % |
| Fiscal year ended December 31, 2022 | 11.32 | — | 3.4 | 2.0 | 4.9 |
| Fiscal year ended December 31, 2021 | 7.22 | 7.19 | 2.2 | 1.7 | 3.7 |

(Notes) Investment gain or loss on equity method: December 31, 2022 — Million yen December 31, 2021 — Million yen

(Notes) 1. Net income per share on a diluted basis for the fiscal year ended on December 31, 2022 is not presented because there are no dilutive potential shares.
2. The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020) from the beginning of this fiscal year. Accordingly, this accounting standard was applied to data for the fiscal year ended on December 31, 2022.

(2) Consolidated financial conditions

| | Total Assets | Net Assets | Equity Ratio | Net Assets per Share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| Fiscal year ended December 31, 2022 | 53,359 | 15,857 | 29.6 | 334.37 |
| Fiscal year ended December 31, 2021 | 42,047 | 14,817 | 35.1 | 316.36 |

(Notes) Equity: December 31, 2022 15,787 Million yen December 31, 2021 14,776 Million yen
The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020) from the beginning of this fiscal year. Accordingly, this accounting standard was applied to data for the fiscal year ended on December 31, 2022.

## 2. Dividend Information

| | Dividend per Share | | | | | Dividends (total) | Dividend payout ratio (consolidated) | Ratio of dividends to net assets (consolidated) |
|---|---|---|---|---|---|---|---|---|
| | 1Q | Interim | 3Q | Year-end | Total | | | |
| | Yen | Yen | Yen | Yen | Yen | ¥ millions | % | % |
| Fiscal year ended December 31, 2021 | — | 0.00 | — | 3.50 | 3.50 | 164 | 48.5 | 1.1 |
| Fiscal year ended December 31, 2022 | — | 0.00 | — | 4.50 | 4.50 | 220 | 39.8 | 1.4 |
| Fiscal year ending December 31, 2023 (estimate) | — | 3.50 | — | 4.50 | 8.00 | | — | |

(Notes) 1. Correction to most recently announced dividend forecast: None

## 3. Consolidated Business Plan for Fiscal Year Ending December 31, 2023 (January 1, 2023–December 31, 2023)

A.D.Works Group announces its business targets for each consolidated fiscal year in the form of a “results plan.” A results plan consists of targets for our businesses, and is different from the forecasts and predictions.

Note that for projections of business results, the outlook at the end of each quarter will be updated as appropriate and disclosed as a forecast based on information that is highly accurate for the Group overall and deemed reasonable at that time.

(%: Year-on-year comparison)

| | Net Sales | | EBITDA | | Ordinary Income | | Net income before income taxes | | Net income attributable to owners of parent | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Full year | 40,000 | 43.6 | 2,730 | 80.1 | 1,870 | 96.1 | 2,000 | 119.7 | 1,200 | 127.6 |

* Notes

(1) Important changes in subsidiaries during the term (changes in specific subsidiaries resulting in changes in scope of consolidation): None

(2) Changes in accounting policies, changes or restatement of accounting estimates

| | |
|---|---|
| 1. Changes in accounting policies due to the revision of accounting standards, etc.: | Yes |
| 2. Changes in accounting policies other than 1: | None |
| 3. Changes in accounting estimates: | None |
| 4. Restatement: | None |

(3) Number of issued shares (common shares)

| | | | | |
|---|---|---|---|---|
| 1. Number of outstanding shares at end of fiscal year (including treasury stock) | As of December 31, 2022 | 49,098,364 shares | As of December 31, 2021 | 47,111,064 shares |
| 2. Number of treasury stock at end of fiscal year | As of December 31, 2022 | 1,882,487 shares | As of December 31, 2021 | 403,953 shares |
| 3. Average number of shares during the period | Fiscal year ended on December 31, 2022 | 46,570,178 shares | Fiscal year ended on December 31, 2021 | 43,241,904 shares |

(Note) The Company has a Director Stock Compensation Trust (prior to September 2022, there was also an Employee Stock Holding Exclusive Trust), and the Company shares held by the trust are included in the number of treasury stock.

* This Summary of Earnings Report is not subject to audit by a certified public accountant or audit corporation.

* Explanation about the proper use of results forecasts, and additional information

The Company makes no guarantees with respect to the achievement of its results forecasts or forward-looking statements included in these materials. Actual results may differ significantly from the forecasts in the document, depending on various factors.

**[Attached Materials]**

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## 1. Overview of Business Results

### (1) Overview of business results for the fiscal year under review

Forward-looking statements in these materials are based on the Group's assessments as of the end of this consolidated fiscal year.

During the consolidated fiscal year under review, the outlook for the Japanese economy remained uncertain. This fiscal year was characterized by a dizzying series of events in the economic environment, including fluctuations in the financial capital markets due to global monetary tightening and international conflicts, rising prices, constraints along the supply chain, and sharp changes in exchange rates. This makes it difficult to predict the future as well. Although progress was made in adapting to new lifestyles aimed at preventing the spread of COVID-19, we must remain vigilant about the possibility of another resurgence of the coronavirus.

The income property market in urban areas, which is the Group's main business area, was strong on the back of a financing environment including low rates and other factors. Income properties for offices and residences in the 1–2-billion-yen class, which is the Group's area of strength, are attracting solid demand, primarily among investors seeking stable cash flow, and transaction prices are on the rise.

The rental market for office buildings in Tokyo's five urban wards is soft due to the ongoing decline in average rents, particularly for high-class offices, and the flat vacancy rates. At the same time, demand for small- and medium-sized offices with specifications aligned with trends remains solid due to the changing values and needs for offices in this era of living with COVID-19.

In addition, the rental market for residential apartments within Tokyo is supported by stable demand, with average rents rising and firm.

In Los Angeles, where the Group has an office, the income property market is strong, thanks to a rise in average rents as inflation increases. This offsets changes in the financing environment resulting from the Federal Reserve Board's substantial rate hikes.

In this kind of business environment, in the Group's key income property sales business, we systematically and strategically pursued purchases and sales centered on our product planning capability, which accurately ascertains the needs of investors and residents. Devising product plans astutely aligned with needs and improving profitability enabled the Group to aggressively pursue acquisitions even in an overheated competitive environment. As a result, our balance of income properties at the end of the fiscal year increased significantly to reach a new high. We improved both efficiency and profit rates in our sales by anticipating the needs of promising buyers from the moment we acquired a property, and as a result, sales drove the Group's earnings.

In the overseas real estate business, we focused on restoring the cycle of acquisition, commodification and sale for its income properties in Los Angeles. We were also actively involved in developing town houses, a joint project with our local partners, and sales brokering with property owners.

As a result, in the fiscal year under review, the Group's consolidated sales totaled 27,856 million yen (7.1% below the full-year business plan), EBITDA came to 1,515 million yen (16.6% over plan), ordinary income amounted to 953 million yen (19.2% over plan), net income before taxes was 910 million yen (13.8% over plan), and net income attributable to owners of parent totaled 527 million yen (17.2% over plan).

Earnings results for the consolidated fiscal year under review are shown in the table below.

(Unit: million yen)

| | Fiscal year ended December 31, 2022 (Full-year plan) | | Fiscal year ended December 31, 2021 (Results) | | Fiscal year ended December 31, 2022 (Results) | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Net sales ratio | Amount | Net sales ratio | Amount | Net sales ratio | YoY | Percentage of full-year plan achieved |
| Net sales | 30,000 | 100.0% | 24,961 | 100.0% | 27,856 | 100.0% | 111.6% | 92.9% |
| (Property sales) | — | — | (20,318) | (81.4%) | (22,314) | (80.1%) | (109.8%) | — |
| (Stock) | — | — | (4,942) | (19.8%) | (5,868) | (21.1%) | (118.7%) | — |
| (Internal sales) | — | — | (-300) | (-1.2%) | (-326) | (-1.2%) | — | — |
| EBITDA | 1,300 | 4.3% | 1,073 | 4.3% | 1,515 | 5.4% | 141.2% | 116.6% |
| Ordinary income | 800 | 2.7% | 650 | 2.6% | 953 | 3.4% | 146.6% | 119.2% |
| Net income before taxes | 800 | 2.7% | 650 | 2.6% | 910 | 3.3% | 140.0% | 113.8% |
| Net income | 450 | 1.5% | 312 | 1.3% | 527 | 1.9% | 168.8% | 117.2% |

Note 1: “Property sales,” “stock,” “net income before taxes,” and “net income” are the respective abbreviations of “income property sales business,” “stock-type fee business,” “net income before income taxes,” and “net income attributable to owners of parent.”

Note 2: EBITDA (operating income before depreciation and amortization): Operating income + depreciation and amortization
Depreciation and amortization includes depreciation, software amortization, amortization of goodwill, and any other non-cash expenses.

A summary of the segment results is as follows. Please note that the Group considers operating income to be segment income.

(Income property sales business)

Net sales were 22,314 million yen, EBITDA was 1,713 million yen, and operating income was 1,711 million yen.

In the environment affecting the income property sales business, competitive strengths heightened due to a positive cycle from acquisition to sales built on accurate product planning aligned with demand, as well as success in expanding the sales network in affiliation with financial institutions in the small-lot real estate product sales business.

The acquisition amount was 28,159 million yen. We succeeded in reinforcing organizational strengths, which had long been a focus, and as a result of proactive acquisition activities, we were able to acquire prime properties.

As a result, the balance of income properties was 41,476 million yen (Note 2), which was 12,562 million yen higher than the balance at the end of the previous fiscal year.

The income property sales business, an important business that drives the Group’s overall earnings, not only achieved results largely in line with forecasts, but also increased the balance of income properties to a record-high level and made steady progress toward achieving the targets in the First Medium-term Management Plan. In addition to quantitative results, qualitative results that will lead to the next step were also achieved, such as the organizational capacity for acquisitions and product planning abilities.

(Stock-type fee business)

Net sales were 5,868 million yen, EBITDA was 1,335 million yen, and operating income was 1,235 million yen.

Since rent from income properties held by the Group accounts for the majority of its revenue, we were able to record stable net sales and operating income in line with favorable results in the income property sales business.

The “stock-type” sales in this business consist primarily of management income from A.D.Partners Co., Ltd. and rent income from ADW Management USA, Inc., while “flow-type” sales consist mainly of construction and repair income from Sumikawa ADD Co., Ltd..

The property unit price rose due to contributions from the aggressive acquisition of properties in the 1–2-billion-yen class, and as a result, the average balance of income properties during this fiscal year rose to 34,876 million yen, compared to 27,796 million yen during the previous fiscal year.

The stock-type fee business plays an important role for the Group as it ensures the stability of the Group’s earnings. In this sense, A.D.Partners Co., Ltd's property management must raise earning capacity even more. In particular, given that the products handled in the income property sales business are becoming larger in scale and the weight of office buildings is increasing recently, the ability to address these changes must be raised, in tandem with efficiency.

Note 1: The operating income for each segment is an amount before deduction of expenses not allocated to any segment, such as corporate expenses, and operating expenses from intersegment sales or transfers. Therefore, the total operating income for the segments does not match consolidated operating income.

Note 2: The income property balance of 41,476 million yen does not include the estimated consumption tax provision (11 million yen) to be booked as an asset following the receipt of a notice of correction from the Tokyo Regional Taxation Bureau regarding consumption taxes for previous years.

Note 3: In the "stock-type fee business," we position items such as rent from income properties held for the medium to long term or for short-term sales, and fee income from after-sales property management contracts for income properties as "stock-type," while repair work fees for managed properties and brokerage income derived from customer relations are classified as "flow-type."

## (2) Financial position in the fiscal year under review

In the consolidated fiscal year under review, cash and deposits decreased 1,008 million yen due primarily to a capital increase by third-party allotment and other factors, and real estate for sale and real estate for sale in process increased 12,562 million yen. Interest-bearing liabilities (short-term loans payable, current portion of bonds, current portion of long-term loans payable, and bonds payable and long-term loans payable) increased 9,436 million yen due to aggressive acquisition of prime income properties.

Due to these and other factors, net assets increased 1,040 million yen compared to the previous consolidated fiscal year. Net assets increased due to 527 million yen in net income attributable to owners of parent, a 283 million yen increase in capital as the exercise of subscription rights to shares increased with a third-party allotment, and a 524 million yen increase in foreign currency translation adjustments, but retained earnings decreased 164 million yen due to dividends.

Total assets and total liabilities and net assets increased 11,311 million yen compared to the end of the previous consolidated fiscal year.

The details of the consolidated balance sheet for this fiscal year are as follows.

The "ratio" indicates the percentage relative to total assets (total liabilities and net assets).

(Assets)

Total assets at the end of the current consolidated fiscal year were 53,359 million yen. Of this, real estate for sale and real estate for sale in process accounted for 41,488 million yen (77.8% ratio) and cash and deposits for 7,425 million yen (13.9%).

(Liabilities)

Total liabilities at the end of the current consolidated fiscal year were 37,501 million yen. Of this, interest-bearing liabilities accounted for 32,515 million yen (60.9% ratio).

(Net assets)

Total net assets amounted to 15,857 million yen. Of this, capital stock and capital surplus accounted for 11,561 million yen (21.7% ratio).

## (3) Outlook

In our outlook for the future, we expect the economic environment to remain uncertain due to fluctuations in capital markets, international conditions, and the impact of COVID-19. In particular, the property market is strongly affected by capital markets, which means that we must pursue business strategies that consider the possibility of monetary tightening in Japan as well. As such, we anticipate difficult conditions.

In the income property sales business, which is our main business, we have strengthened our product planning capacity, adapted to user needs, and aggressively acquired properties with environmental certifications to better conform to the current overheated competitive environment. We believe that these product planning abilities are effective and reproducible even in future highly uncertain times and will be the source of our competitive dominance. We will continue to systematically pursue acquisitions and sales centered on this product planning capacity in the income property sales business as we work to achieve the objectives in the First Medium-term Management Plan.

As shown below, in its consolidated earnings plan, the Group has set targets of 40 billion yen in net sales, 2.73 billion yen in EBITDA, 1.87 billion yen in ordinary income and 2.0 billion yen in net income before taxes for the fiscal year ending in December 2023, the final year of the First Medium-term Management Plan. We believe it is crucial to build up our track record in various ways during the fiscal year ending in December 2023 to achieve these targets, in addition to actively pursuing the aforementioned income property sales business. We will proactively expand on our achievements so that we can make the necessary leap, not only in the balance of income properties, but also our product planning capacity, marketing capacity, sales network, DX and, above all, employee strength.

In addition, the Group aims to contribute to the creation of a sustainable society through its business activities. The Group's main "real estate redevelopment" business has high social value in that we can maximize the potential of real estate and add vitality to people's lives and social activity. We will maximize the value we provide to society and strive to rise our corporate value by pursuing materiality (issues that are important to management).

| | Fiscal year ended December 31, 2022 (Results) | Fiscal year ending December 31, 2023 (plan) |
|---|---|---|
| Net sales | 27,856 million yen | 40,000 million yen |
| EBITDA | 1,515 million yen | 2,730 million yen |
| Ordinary income | 953 million yen | 1,870 million yen |
| Net income before taxes | 910 million yen | 2,000 million yen |

Note: The Group announces its business targets for each consolidated fiscal year in the form of a "results plan" consisting of targets for our businesses, which differ from the forecasts and predictions. Note that for projections of business results, the outlook at the end of each quarter will be updated as appropriate and disclosed as a forecast based on information that is highly accurate for the Group overall and deemed reasonable at that time.

## 2. Basic Thoughts on Selecting Accounting Standards

The Group currently prepares its consolidated financial statements using Japan's standards in light of the comparability between periods as well as that between companies in the consolidated financial statements.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

(Unit: Thousands of yen)

| | As of December 31, 2021 | As of December 31, 2022 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 8,433,610 | 7,425,165 |
| Accounts receivable – trade | 197,404 | 177,971 |
| Real estate for sale | 25,026,039 | 37,351,103 |
| Real estate for sale in process | 3,900,287 | 4,137,456 |
| Operating investments in capital | 1,053,066 | – |
| Other | 2,170,384 | 2,645,799 |
| Allowance for doubtful accounts | (2,162) | (2,049) |
| Total current assets | 40,778,629 | 51,735,446 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 147,683 | 137,720 |
| Accumulated depreciation | (30,346) | (39,165) |
| Buildings (net) | 117,336 | 98,555 |
| Tools, furniture, and fixtures | 116,045 | 110,646 |
| Accumulated depreciation | (83,022) | (80,751) |
| Tools, furniture, and fixtures (net) | 33,023 | 29,895 |
| Vehicles (net) | 7,984 | 12,750 |
| Accumulated depreciation | (6,596) | (9,228) |
| Vehicles (net) | 1,388 | 3,521 |
| Land | 30,587 | 24,908 |
| Total property, plant and equipment | 182,335 | 156,881 |
| Intangible assets | | |
| Goodwill | 42,277 | – |
| Other | 38,639 | 84,960 |
| Total intangible fixed assets | 80,917 | 84,960 |
| Investments and other assets | | |
| Investment securities | 366,418 | 778,957 |
| Deferred tax assets | 378,887 | 320,219 |
| Other | 226,636 | 252,450 |
| Total investments and other assets | 971,942 | 1,351,627 |
| Total non-current assets | 1,235,195 | 1,593,469 |
| Deferred assets | | |
| Share issuance cost | 8,183 | – |
| Establishment costs | 25,314 | 17,540 |
| Bonds issuance cost | – | 12,859 |
| Total deferred assets | 33,498 | 30,400 |
| Total assets | 42,047,323 | 53,359,316 |

(Unit: Thousands of yen)

| | As of December 31, 2021 | As of December 31, 2022 |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable – trade | 574,730 | 640,045 |
| Short-term loans payable | 253,046 | 71,000 |
| Current portion of bonds | 442,500 | 319,200 |
| Current portion of long-term loans payable | 1,490,761 | 3,774,842 |
| Income taxes payable | 208,232 | 60,271 |
| Crowd funding and other deposits received | 392,007 | 1,063,286 |
| Other | 2,887,915 | 3,171,181 |
| Total current liabilities | 6,249,193 | 9,099,826 |
| Non-current liabilities | | |
| Bonds payable | 185,000 | 719,100 |
| Long-term loans payable | 20,707,687 | 27,631,454 |
| Other | 87,726 | 51,100 |
| Total non-current liabilities | 20,980,413 | 28,401,654 |
| Total liabilities | 27,229,607 | 37,501,481 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 6,084,269 | 6,232,142 |
| Capital surplus | 5,100,853 | 5,328,968 |
| Retained earnings | 3,589,513 | 3,952,281 |
| Treasury shares | (50,264) | (295,680) |
| Total shareholders' equity | 14,724,370 | 15,217,712 |
| Accumulated other comprehensive income | | |
| Foreign currency translation adjustments | 57,548 | 581,748 |
| Valuation difference on available-for-sale securities | (5,270) | (11,676) |
| Total accumulated other comprehensive income | 52,278 | 570,072 |
| Subscription rights to shares | 11,477 | 21,334 |
| Non-controlling interests | 29,589 | 48,716 |
| Total net assets | 14,817,716 | 15,857,835 |
| Total liabilities and net assets | 42,047,323 | 53,359,316 |

(2) Consolidated profit and loss statement and consolidated comprehensive income statement

Consolidated Profit and Loss Statement

(Unit: Thousands of yen)

| | Previous consolidated fiscal year (Jan. 1, 2021 – Dec. 31, 2021) | Current consolidated fiscal year (Jan. 1, 2022 – Dec. 31, 2022) |
|---|---|---|
| Net sales | 24,961,158 | 27,856,128 |
| Cost of sales | 20,229,966 | 22,470,748 |
| Gross profit | 4,731,192 | 5,385,380 |
| Selling, general and administrative expenses | 3,797,856 | 4,008,787 |
| Operating income | 933,336 | 1,376,592 |
| Non-operating income | | |
| Interest and dividend income | 7,365 | 12,036 |
| Insurance income | 35,466 | 13,053 |
| Income on difference to simplified tax such as consumption tax, etc. | 13,172 | — |
| Other | 15,210 | 8,985 |
| Total non-operating income | 71,215 | 34,076 |
| Non-operating expenses | | |
| Interest expenses | 262,972 | 359,913 |
| Borrowing fee | 55,052 | 47,866 |
| Amortization of establishment costs | 7,774 | 7,774 |
| Other | 28,346 | 41,386 |
| Total non-operating expenses | 354,145 | 456,941 |
| Ordinary income | 650,406 | 953,727 |
| Extraordinary loss | | |
| Impairment | — | 43,205 |
| Total extraordinary loss | — | 43,205 |
| Net income before income taxes | 650,406 | 910,522 |
| Income taxes – current | 302,321 | 300,999 |
| Income taxes adjustment | 34,565 | 65,573 |
| Total income taxes | 336,886 | 366,573 |
| Net income | 313,519 | 543,948 |
| Income attributable to non-controlling interests | 1,239 | 16,755 |
| Net income attributable to owners of parent | 312,280 | 527,193 |

Consolidated Comprehensive Income Statement

(Unit: Thousands of yen)

| | Previous consolidated fiscal year (Jan. 1, 2021 – Dec. 31, 2021) | Current consolidated fiscal year (Jan. 1, 2022 – Dec. 31, 2022) |
|---|---|---|
| Net income | 313,519 | 543,948 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (1,763) | (6,405) |
| Foreign currency translation adjustments | 363,183 | 524,200 |
| Total other comprehensive income | 361,419 | 517,794 |
| Comprehensive income | 674,939 | 1,061,742 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | 673,699 | 1,044,987 |
| Comprehensive income attributable to non-controlling interests | 1,239 | 16,755 |

(Important subsequent events)

None.