

Summary of Earnings Report for Third Quarter of Year Ending December 31, 2022

November 10, 2022

Name of listed company: A.D.Works Group Co., Ltd. Listed stock exchange: Tokyo Stock Exchange
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 Additional material of financial results: Yes
 Result meeting: No

(Millions of yen, rounded down)

1. Consolidated Results for the Third Quarter of the Fiscal Year Ending December 31, 2022 (January 1, 2022– September 30, 2022)

(1) Consolidated business results (cumulative) (%: Year-on-year comparison)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable To Owners Of Parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Third quarter, year ending December 31, 2022	21,048	17.3	1,087	76.3	794	90.6	476	71.8
Third quarter, year ended December 31, 2021	17,944	—	616	—	417	—	277	—

(Notes)1. Comprehensive Income: 2022 3Q 1,387 million yen (153.7%) 2021 3Q 547 million yen (—%)
 2. The Company was established on April 1, 2020 with a fiscal year ending in December, so the fiscal year ending December 31, 2020 is the nine-month period from April 1, 2020 to December 31, 2020. As a result, the Company has not prepared consolidated financial statements for the third quarter of the fiscal year ending December 31, 2020 for comparison purposes, and therefore, the percentage change from the same period of the previous year for the third quarter of the fiscal year ending December 31, 2021 is not shown.

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Third quarter, year ending December 31, 2022	10.26	—
Third quarter, year ended December 31, 2021	6.52	6.48

(Note) Net income per share on a diluted basis for the Third quarter of the fiscal year ending on December 31, 2022 is not presented because there are no latent shares.

(2) Consolidated financial conditions

	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
Third quarter, year ending December 31, 2022	47,306	16,147	34.0
Fiscal year ended December 31, 2021	42,047	14,817	35.1

(Notes) Equity: 2022 3Q 16,083 million yen 2021 14,776 million yen

2. Dividends Information

	Dividend per Share				
	1Q	Interim	3Q	Year end	Total
Fiscal year ended December 31, 2021	—	0.00	—	3.50	3.50
Fiscal year ending December 31, 2022	—	0.00	—		
Fiscal year ending December 31, 2022 (forecast)				3.50	3.50

(Note) Correction to most recently announced dividend forecast: None

Disclaimer

This document was prepared in English for convenience purposes only. The original Japanese document shall take precedence in the event of any discrepancies arising from the translations or interpretations contained in this document.

3. Consolidated Business Plan for Fiscal Year Ending December 31, 2022 (January 1, 2022–December 31, 2022)

The ADWG 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.

(%: comparison with the previous period)

	Net sales		EBITDA		Ordinary Income		Net Income Before Taxes		Net Income Attributable To Owners Of Parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Full year	30,000	20.2	1,300	21.1	800	23.0	800	23.0	450	44.1

(Note) Correction to most recently announced results forecast: None

* Notes

(1) Important changes in subsidiary during the consolidated fiscal year under review : None

(Changes in specified subsidiaries affecting the scope of consolidation)

New: —Company (name of company)—, Excluded: —Company (name of company)—

(2) Adoption of accounting treatment unique to the preparation of quarterly consolidated financial statements : Yes

(3) Changes in accounting policies and 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. : No

3. Changes in accounting estimates : No

4. Restatement : No

(4) Number of issued shares (common shares)

1. Number of outstanding shares (including treasury stock) at end of period

Q3 FY2022	49,098,364 shares	Fiscal year ended on December 31, 2021	47,111,064 shares
Q3 FY2022	2,095,792 shares	Fiscal year ended on December 31, 2021	403,953 shares
Q3 FY2022	46,416,140 shares	Q3 FY2021	42,490,886 shares

2. Number of treasury stock at end of period

3. Average number of shares during period (cumulative period)

* This quarterly financial statement does not need to undergo a quarterly review by a certified public accountant or an 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. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated balance sheets

(Unit: Thousands of yen)

	As of December 31, 2021	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	8,433,610	6,709,949
Accounts receivable - trade	197,404	118,101
Real estate for sale	25,026,039	32,810,946
Real estate for sale in process	3,900,287	3,642,447
Operating investments in capital	1,053,066	—
Other	2,170,384	2,282,742
Allowance for doubtful accounts	(2,162)	(1,944)
Total current assets	40,778,629	45,562,243
Non-current assets		
Property, plant and equipment		
Other, net	182,335	181,566
Total property, plant and equipment	182,335	181,566
Intangible assets		
Goodwill	42,277	29,594
Other	38,639	75,453
Total intangible assets	80,917	105,047
Investments and other assets		
Investment securities	366,418	805,026
Deferred tax assets	378,887	405,485
Other	226,636	216,591
Total investments and other assets	971,942	1,427,103
Total non-current assets	1,235,195	1,713,717
Deferred assets		
Share issuance cost	8,183	—
Establishment costs	25,314	19,484
Bonds issuance cost	—	11,042
Total deferred assets	33,498	30,526
Total assets	42,047,323	47,306,488
Liabilities		
Current liabilities		
Accounts payable - trade	574,730	689,169
Short-term loans payable	253,046	112,000
Current portion of bonds	442,500	255,200
Current portion of long-term loans payable	1,490,761	3,023,873
Income taxes payable	208,232	167,520
Crowd funding and other deposits received	392,007	661,807
Provisions	—	126,283
Other	2,887,915	2,717,728
Total current liabilities	6,249,193	7,753,581
Non-current liabilities		
Bonds payable	185,000	629,800
Long-term loans payable	20,707,687	22,678,787
Other	87,726	97,072
Total non-current liabilities	20,980,413	23,405,659
Total liabilities	27,229,607	31,159,241

(Unit: Thousands of yen)

	As of December 31, 2021	As of September 30, 2022
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	3,900,405
Treasury shares	(50,264)	(328,636)
Total shareholders' equity	14,724,370	15,132,879
Accumulated other comprehensive income		
Foreign currency translation adjustments	57,548	949,833
Valuation difference on available-for-sale securities	(5,270)	916
Total accumulated other comprehensive income	52,278	950,749
Subscription rights to shares	11,477	18,596
Non-controlling interests	29,589	45,022
Total net assets	14,817,716	16,147,247
Total liabilities and net assets	42,047,323	47,306,488

(2) Quarterly Consolidated Profit and Loss Statement, and Consolidated Comprehensive Income Statement

Consolidated Profit and Loss Statement

Third quarter of consolidated fiscal year

(Unit: Thousands of yen)

	Previous consolidated Third quarter (January 1, 2021 - September 30, 2021)	Current consolidated Third quarter (January 1, 2022 - September 30, 2022)
Net sales	17,944,826	21,048,309
Cost of sales	14,668,962	17,032,292
Gross profit	3,275,864	4,016,017
Selling, general and administrative expenses	2,658,933	2,928,261
Operating income	616,930	1,087,755
Non-operating income		
Interest and dividend income	3,755	5,587
Insurance income	34,469	13,053
Income on difference to simplified tax such as consumption tax, etc.	9,580	–
Other	5,933	7,564
Total non-operating income	53,739	26,206
Non-operating expenses		
Interest expenses	186,428	253,356
Borrowing fee	41,105	37,958
Amortization of establishment costs	5,830	5,830
Other	20,258	21,945
Total non-operating expenses	253,623	319,091
Ordinary income	417,046	794,870
Quarterly net income	417,046	794,870
Income taxes - current	138,613	305,545
Total income taxes	138,613	305,545
Quarterly net income	278,432	489,324
Quarterly net income attributable to non-controlling interests	1,206	13,060
Net income attributable to owners of parent	277,225	476,263

Consolidated Comprehensive Income Statement

Third quarter of consolidated fiscal year

(Unit: Thousands of yen)

	Previous consolidated Third quarter (January 1, 2021 - September 30, 2021)	Current consolidated Third quarter (January 1, 2022 - September 30, 2022)
Quarterly net income	278,432	489,324
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,775)	6,186
Foreign currency translation adjustments	271,418	892,284
Total other comprehensive income	268,642	898,471
Quarterly comprehensive income	547,074	1,387,795
(Breakdown)		
Comprehensive income attributable to owners of parent	545,868	1,374,734
Comprehensive income attributable to non-controlling interests	1,206	13,060

(3) Notes for the quarterly consolidated financial statements

(Notes on the going concern assumption)

Not applicable

(Notes on significant changes in amount of shareholders' equity)

Capital stock and capital surplus increased by 147,872 thousand yen and 228,115 thousand yen, respectively, during the third quarter of the current fiscal year due to the exercise of stock acquisition rights, and as a result, capital stock and capital surplus amounted to 6,232,142 thousand yen and 5,328,968 thousand yen, respectively, at the end of the third quarter of the current fiscal year.

(Application of specific accounting methods when preparing quarterly consolidated financial statements)

Calculation of tax expenses

The Company calculates tax expenses by reasonably estimating the effective tax rate after applying tax effect accounting to net income before taxes for the consolidated fiscal year, including this Third quarter, and multiplying net income before income taxes or net loss before income taxes by this estimated effective tax rate.

The adjusted income tax amounts are included in income tax, inhabitant tax and enterprise tax.

(Changes in accounting policies)

(Application of accounting standard for revenue recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereinafter "Accounting Standard for Revenue Recognition") and related implementation guidance from the beginning of the first quarter of the consolidated accounting period. Accordingly, revenue is recognized at a point in time when control of promised goods or services is transferred to the customers, at the amount that is expected to be received in exchange for the goods or services.

As its main business, the Group operates an income property sales business and a stock-type fee business. The revenue generated by these businesses is posted in line with contracts with customers, and the promised compensation does not include any important financial component.

The income property sales business is administered by A.D.Works Co., Ltd. in Japan and by ADW-No.1 LLC and ADW Hawaii LLC, among others, in the US. This business acquires income properties through its own sales route and takes steps to raise their value, such as improving the management conditions of the buildings, changing their use, replacing tenants, and making large-scale repairs and renovations. The properties are then sold to investors (primarily wealthy individuals), real estate owners, corporations, institutional investors and others. This business has an obligation to carry out operations in which income properties whose value has been raised are then transferred, based on real estate sales agreements with customers. These performance obligations are fulfilled when the property is transferred, and revenue is posted at the point of this transfer. In some real estate sales agreements,, the Group is required to guarantee the cost of repairs in the event that non-conformity with the contract (defects) are found in the transferred property or the cost of work not completed when the property is transferred. The performance obligation is then fulfilled when the repair or other work is actually done or the guarantee period ends, at which point the revenue is posted.

The stock-type fee business is carried out in Japan by A.D.Works Co., Ltd., A.D.Partners Co., Ltd. and Sumikawa ADD Co., Ltd, and in the US by ADW Management USA, Inc. and ADW Lending LLC. This business is primarily concerned with property management for properties whose management Group companies are entrusted with. In property management, the Group manages revenue and expenditures such as tenant rent and deposits, handles tenant move-ins and departures, etc., and sends the client the rent, etc. received from tenants less the management fees, based on a lease agreement contract with the client. These obligations are fulfilled when the money is sent to the client, and revenue is recorded when this money is sent. Alternative treatment is used in the case of construction contracts with extremely short durations from the transaction start date stated in the contract to the estimated date on which the performance obligation will be fully met, with the revenue recognized when the performance obligation is fully met. In the case of construction contracts whose performance obligation is fulfilled over a certain

period of time, in the event that the progress made in fulfilling the obligation can be rationally estimated, revenue is recognized over a certain period of time. In the event that the progress made in fulfilling the obligation cannot be rationally estimated but the expenses incurred can be expected to be recovered, the revenue is recognized using the cost recovery method. As a result, compared to the conventional accounting method, there was only a negligible impact on net sales, the cost of sales, operating income, ordinary income or net income before taxes in the Third quarter of this consolidated fiscal year. There was no impact on the balance of retained earnings at the beginning of this fiscal year.

The Company applies the Revenue Recognition Accounting Standard in accordance with the transitional handling stipulated in the proviso of Paragraph 84 of the Standard. The Company adds or subtracts the amount of the cumulative effects to or from retained earnings at the beginning of the first quarter in the event that the new accounting policies are applied retroactively to periods before the beginning of the first quarter. The Company began applying the new accounting policies to balances at the start of the first quarter. However, the Company applied the procedure provided for in Paragraph 86 of the Revenue Recognition Accounting Standards and did not retroactively apply the new accounting policy to contracts under which almost all revenue had been recognized before the beginning of the first quarter in accordance with the procedure before the application of the new accounting policy.

As a result, there is no impact on the balance of retained earnings at the beginning of the first quarter.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company began applying the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 issued on July 4, 2019, hereinafter the “Fair Value Measurement Accounting Standard”) and related measures at the beginning of the first quarter. Accordingly, the Company will apply the new accounting policies prescribed in the Fair Value Measurement Accounting Standard and related measures in the future in accordance with the transitional handling stipulated in Section 19 of the same standard and Section 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10 issued on July 4, 2019). Application of this standard has no impact on quarterly consolidated financial statements.