

Summary of Earnings Report for First Three Quarters of Year Ending March 31, 2017

January 26, 2017

Name of listed company: A.D.Works, Ltd. Listed stock exchange: Tokyo Stock Exchange
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 Result meeting: No

(Millions yen, rounded down)

1. Consolidated Results for the First Three Quarters of the Fiscal Year Ending March 31, 2017 (April 1, 2016–Dec. 31, 2016)

(1) Consolidated business results (cumulative)

(%: Year-on-year comparison)

	Net Sales		Operating Income		Ordinary Income		Net income attributable to owners of parent	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
First three quarters, year ending March 31, 2017	13,439	21.9	777	26.4	555	19.4	416	39.0
First three quarters, year ended March 31, 2016	11,021	54.7	614	42.3	465	52.0	299	60.7

(Notes) Comprehensive income: 2017 3Q 489million yen (58.8%) 2016 3Q 308million yen (68.5%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
First three quarters, year ending March 31, 2017	1.93	1.93
First three quarters, year ended March 31, 2016	1.39	1.39

(2) Consolidated Financial Conditions

	Total assets	Net Assets	Shareholders' Equity Ratio
	¥ millions	¥ millions	%
First three quarters, year ending March 31, 2017	23,660	6,321	26.6
End of fiscal year ended March 31, 2016	17,925	5,842	32.6

(Notes) Shareholders' equity: 2017 3Q 6,297 million yen End of 2016 5,836 million yen

2. Dividends Information

	Dividend per Share				
	1Q	Interim	3Q	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2016	—	0.00	—	0.35	0.35
Year ending March 31, 2017	—	0.00	—	—	—
Year ending March 31, 2017 (forecast)	—	—	—	0.55	0.55

(Notes) 1. Correction to most recently announced dividend forecast: No

2. The annual dividend for the year ending March 31, 2017 (forecast) includes a 0.20 yen dividend commemorating the 130th anniversary of our founding.

3. Consolidated Business Plan for the Fiscal Year Ending March 31, 2017

The A.D.W. Group announces its business targets for each consolidated fiscal year in the form of a “results plan.” “Results plans” are targets for our business and are different from “forecasts and predictions” that are calculated rationally based on information that is considered to be highly accurate.

(%: Comparison with the previous period)

	Net sales		EBITDA		Ordinary Income		Net Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Full year	16,500	4.9	1,200	29.5	800	23.0	528	23.7

1. Qualitative Information Concerning this Quarterly Earnings Report

(1) Explanation of business results

During the first three quarters of this consolidated fiscal year, Japan saw improvements in the hiring and income environments, and continuing expectations of a gradual economic recovery. On the other hand, there was growing uncertainty overseas as a result of developments such as the decision by the UK to leave the EU after the June 2016 referendum, and the dramatic price movements in financial markets that started with the US presidential election in November 2016.

In the business environment surrounding the A.D.Works Group, although the number of secondhand condominiums sold in the Tokyo Metropolitan Area and the price per m² are continuing to rise, the number of inventory properties is also rising and a cautious outlook is emerging even as the retail market remains active. The same is true in the income properties market, and the A.D.W. Group is maintaining a careful eye on market changes as we conduct our business activities.

Based on the Fifth Mid-Range Business Plan (year ending March 31, 2017 – year ending March 31, 2019), the A.D.W. Group has established basic policies of "strategic expansion of the balance of income properties in order to establish a solid business foundation and achieve a stable profit base", "development and expansion of business which will become a new pillar of future earnings", and "restructuring of capabilities so that they can support the larger scale of our business", and has carried out a variety of programs to achieve them.

In line with the above policies of our mid-range business plan, during the First three quarters of this consolidated fiscal year we conducted active acquisition of properties in the Tokyo Metropolitan Area and in Los Angeles in the U.S, in parallel with our sales activities.

In the United States business that was launched in 2013, we have continued to steadily expand acquisitions and sales as the U.S. economy remains on a strong growth path. During the first three quarters of this consolidated fiscal year, we recorded sales of 1,886 million yen, accounting for approximately 14% of consolidated sales.

We are also engaged in the following as new projects, and are working to develop new products and new customer groups.

- We have started construction of an office building developed by our company in Shibuya Dogenzaka.
- We opened an Osaka Sales office with two objectives: (1) expanding the profit base for our income properties business, and (2) stabilizing the business by increasing the number of business sites.
- With the opening of *Minna no Toshi online*, we have entered Real Estate Tech (ReTech) and are aiming to construct a distribution platform for subdivided real estate investment products.

As a result of the above, the business results for the First three quarters of this consolidated business year are as shown in the table below.

(Units: Millions yen)

	First three quarters, year ended March 31, 2016		First three quarters, year ending March 31, 2017		
	amount	% of sales	amount	% of sales	year on year rate
Sales	11,021	100.0%	13,439	100.0%	121.9%
(Income property sales business)	(9,893)	(89.8%)	(12,050)	(89.7%)	121.8%
(Stock-type fee business)	(1,280)	(11.6%)	(1,555)	(11.6%)	121.5%
EBITDA	656	6.0%	926	6.9%	141.1%
Ordinary income	465	4.2%	555	4.1%	119.4%

Net income before taxes	465	4.2%	642	4.8%	138.1%
Net income	299	2.7%	416	3.1%	139.0%

Note 1: "Net income" is short for "Net income attributable to owners of parent".

Note 2: A.D.Works categorizes a portion of the income properties held for long-term sale as fixed assets. The gain or loss on sales of these income properties is recorded as extraordinary gains or losses. EBITDA is calculated including these extraordinary gains and losses.

Note 3: Because segment sales includes inter-segment transfers resulting from internal Group sales, the total of the income property sales business and stock-type fee business does not match the total for consolidated sales.

Segment results were as follows. The A.D.W. Group considers operating income to be the segment income.

(Income property sales business)

In this business segment, based on the business plan described above, we focused on active acquisitions and sales of income properties.

As real estate prices continue to rise, we focused on making maximum use of the A.D.Works appraisal capabilities and expertise when acquiring income properties in order to select properties with high profit potential. As a result, we completed the acquisition of 35 properties in Japan and 11 properties in the United States, for a total acquisition of 14,785 million yen of properties during the First half of this consolidated fiscal year.

On the other hand, the profitability of our properties was highly evaluated by the customers and we sold 33 properties in Japan and 7 properties in the United States.

As a result of the above, sales were 12,050 million yen (up 21.8% year-on-year), EBITDA was 1,185 million yen (up 25.7% year-on-year), and operating income was 1,096 million yen (up 16.3% year-on-year). The balance of income properties that will be a source of future profits was 19,220 million yen (compared with 14,551 million yen at the end of the previous fiscal year).

(Stock-type fee business)

This business segment is the segment which serves as an indicator for the goal of "achieving a stable profit base" that was described above. As explained above, our balance of income properties grew during these consolidated three quarters. In addition, we are seeing steady growth in property management contracts for income properties after they are sold, and the total number of income properties under management at the end of these consolidated three quarters was 4,033 (compared to 3,649 at the end of the previous fiscal year). As a result of these factors, there was growth in both rental revenue and sales related to property management contracts. On the other hand, expenses related to this business have also increased. This is due to factors including an increase in contracting expenses related to maintenance resulting from the growing number of properties which we own and manage, and also an increase in personnel expenses as we expand our organization in preparation for future growth.

As a result of the above, sales were 1,555 million yen (up 21.5% year-on-year), EBITDA was 531 million yen (up 19.6% year-on-year), and operating income was 488million yen (up 16.5% year-on-year).

(Notes) *1: Operating income for each segment is the value before deduction of operating expenses that cannot be attributed to the segments and operating expenses resulting from inter-segment transfers. As a result, the total does not match the figure for consolidated operating income.

(2) Forecast for the fiscal year

Based on the Fifth Mid-Range Business Plan (fiscal year ended March 31, 2017 – fiscal year ending March 31, 2019) that was described in 1 (1), A.D.Works will focus on the following 4 measures during the coming fiscal year (year ending March 31, 2017).

- I. Continually expanding the scale of income property business in Japan
- II. Expanding the balance of income properties in the United States
- III. Development of business that will become a new pillar of future earnings
- IV. Restructuring of capabilities

There are no changes to the consolidated results plan for the year ending March 31, 2017 that was announced on May 12 2016.

(Consolidated results plan for the year ending March 31, 2017)

(Units: Millions yen)

	Year ended March 31, 2016 (results)	Year ending March 31, 2017 (plan)
Consolidated sales	15,733	16,500
Consolidated EBITDA	926	1,200
Consolidated ordinary income	650	800
Consolidated net income before taxes	650	800
Consolidated net income	426	528
Consolidated ROE (end of year)	7.3%	6.4%

(Notes) Consolidated ROE (end of year) for the year ending March 31, 2017 was calculated assuming that we succeed in procuring the full amount of the 2,043 million yen in new funds that were announced in "Notice Regarding the Issue of the 19th Subscription Rights to Shares by Third Party Allocation and the Conclusion of Third Party Allocation Agreements with Commitment Provisions" on May 12, 2016.

The results plans announced by our company are targets for our business, and are different from "forecasts and predictions" that are calculated rationally based on information that is considered to be highly accurate. Separate from the results plans, A.D.Works also announces predicted progress for each quarter in the form of "forecasts" that are updated as needed. These are based on highly accurate current information concerning the group and information that we judge to be rational.

2. Consolidated Financial Statements

(1) Consolidated balance sheets

	(Units: Thousands yen)	
	Previous consolidated fiscal year (March 31, 2016)	Current consolidated first three quarters (Dec. 31, 2016)
Assets		
Current assets		
Cash and savings	2,607,377	3,426,235
Accounts receivable	97,775	89,857
Income properties held for sale	12,457,636	16,667,223
Real estate for sale in process	231,369	1,319,843
Other	396,848	519,704
Allowance for doubtful accounts	(1,565)	(1,710)
Total current assets	15,789,442	22,021,153
Fixed assets		
Tangible fixed assets		
Land	1,239,617	638,283
Other(net)	692,728	672,303
Total tangible fixed assets	1,932,346	1,310,586
Intangible fixed assets	61,920	61,815
Investments and other assets	142,115	267,202
Total fixed assets	2,136,382	1,639,604
Total assets	17,925,825	23,660,758
Liabilities		
Current liabilities		
Accounts payable	232,905	336,371
Short-term loans payable	1,593,750	2,974,003
Current portion of bonds	129,500	159,500
Current portion of long-term loans payable	1,120,444	915,849
Corporate tax payable	106,741	151,199
Reserve	14,961	72,084
Other	973,305	1,187,132
Total current liabilities	4,171,609	5,796,140
Fixed liabilities		
Corporate bonds	1,037,750	1,112,000
Long-term loans payable	6,789,902	10,404,871
Other	84,106	26,282
Total fixed liabilities	7,911,758	11,543,154
Total liabilities	12,083,368	17,339,295

(Units: Thousands yen)

	Previous consolidated fiscal year (March 31, 2016)	Current consolidated first three quarters (Dec.31, 2016)
Net assets		
Shareholders' equity	1,937,744	1,942,284
Capital stock	1,886,483	1,891,023
Capital surplus	2,457,085	2,795,408
Treasury stock	(397,471)	(356,689)
Total shareholders' equity	5,883,841	6,272,027
Accumulated other comprehensive income		
other difference in Securities valuation	—	2,378
Foreign currency translation adjustments	(46,481)	28,855
Deferred gains (losses) on hedges	(1,280)	(5,847)
Total accumulated other comprehensive income	(47,761)	25,386
Subscription rights to shares	6,376	24,049
Total net assets	5,842,456	6,321,463
Total liabilities and net assets	17,925,825	23,660,758

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

Consolidated Profit and Loss Statement

(Units: Thousands yen)

	Previous consolidated first three quarters (April 1, 2015 – Dec. 31, 2015)	Current consolidated first three quarters (April 1, 2016 – Dec. 31, 2016)
Sales	11,021,383	13,439,861
Cost of sales	8,823,311	10,842,359
Gross profit on sales	2,198,072	2,597,502
Sales, general, and administrative expenses	1,583,073	1,820,105
Operating income	614,999	777,396
Non-operating income		
Interest and dividends income	272	71
Insurance received	300	1,102
Interest on refund	942	-
Subsidy Income	14	8
Other	45	16
Total non-operating income	1,575	1,198
Non-operating expenses		
Interest paid	119,747	143,647
Commission Paid	18,520	35,258
Other	13,208	44,369
Total non-operating expenses	151,475	223,276
Ordinary income	465,098	555,318
Extraordinary Income		
Gain on disposal of fixed assets	-	86,863
Total extraordinary Income	-	86,863
Net income before taxes	465,098	642,181
Income taxes – current	165,575	225,933
Total income taxes	165,575	225,933
Net income	299,522	416,248
Net income attributable to owners of parent	299,522	416,248

Consolidated Comprehensive Income Statement

(Units: Thousands yen)

	Previous consolidated first three quarters (April 1, 2015 – Dec. 31, 2015)	Current consolidated first three quarters (April 1, 2016 – Dec. 31, 2016)
Net income before minority interests	299,522	416,248
Other comprehensive income		
other difference in Securities valuation	—	2,378
Foreign currency translation adjustments	2,418	75,336
Deferred gains (losses) on hedges	6,318	△4,566
Total other comprehensive income	8,736	73,148
Comprehensive income	308,259	489,397
(attributable to)		
Owners of the parent company	308,259	489,397
Minority interests	—	—