Summary of Earnings Report for First Three Quarters of Year Ending March 31, 2018

January 26, 2018

Name of listed company: A.D.Works, Ltd. Listed stock exchange: Tokyo Stock Exchange
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Scheduled date of filing February 8, 2018 Scheduled date of dividend payment
Additional material of financial result : Yes
Result meeting : None

(Millions of yen, rounded down)

1. Consolidated Results for the First Three Quarters of the Fiscal Year Ending March 31, 2018 (April 1, 2017–December 31, 2017)

(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	%
First three quarters, year ending March 31, 2018	16,358	21.7	927	19.4	714	28.7	440	5.8
First three quarters, year ended March 31, 2017	13,439	21.9	777	26.4	555	19.4	416	39.0

(Notes) Comprehensive Income: 2018 3Q 458 million yen ((6.2 %)) 2017 3Q 489 million yen (58.8 %)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
First three quarters, year ending March 31, 2018	1.38	1.38
First three quarters, year ended March 31, 2017	1.32	1.32

(Note) The Company allocated stock acquisition rights based on its rights offering (non-commitment-type/non-discount type exercise price) carried out on July 13, 2017, and has issued new shares following the exercise of stock acquisition rights. The Company has calculated the net income per share and fully diluted net income per share on the assumption that payment was made based on the rights offering at the start of the previous consolidated fiscal year.

(2) Consolidated financial conditions

	Total Assets	Net Assets	Shareholders' Equity Ratio
	Million yen	Million yen	%
First three quarters, year ending March 31, 2018	29,937	10,226	34.1
End of fiscal year ended March 31, 2017	25,832	6,415	24.7

(Notes) Shareholders' equity: 2018 3Q 10,223 million yen End of 2017 6,391 million yen

2. Dividends Information

	Dividend per Share				
	1Q	Interim	3Q	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2017	—	0.00	—	0.55	0.55
Fiscal year ending March 31, 2018	—	1.65	—		
Fiscal year ending March 31, 2018 (forecast)				—	—

(Notes)
1. Correction to most recently announced dividend forecast: None
2. Breakdown of dividends for end of first half of fiscal year ending in March 2018
   Commemorative dividend as thanks for capital raising through past three rights offering: 1.65 yen
3. Year-end dividends for the fiscal year ending March 31, 2018 have yet to be determined.

3. Consolidated Business Plan for Fiscal Year Ending March 31, 2018

The A.D.W. 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 are different from the forecasts and predictions that are calculated rationally based on information considered to be highly accurate.

(%: comparison with the previous period)

	Net Sales		EBITDA		Ordinary Income		Net Income before Taxes		Net Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Full year	20,000	5.4	1,400	15.1	900	20.3	900	7.8	580	7.3

1. Qualitative Information Concerning this Quarterly Earnings Report

(1) Explanation of business results

During the first three quarters of this consolidated fiscal year (hereafter, "the first three quarters"), the employment and income environment improved in Japan, and the gradual economic recovery continued. In the US, where the Group is based, personal spending, capital investment and employment indicators increased, and the economy continues to expand.

In the business environment surrounding the A.D.W. Group, the number of contracts completed for income property, which are transactions involving an entire building, began to decline over the same period in the previous year in the metropolitan district, which is the Company's major business area, but inventory continues to exceed levels in the previous year. The Group carried out its business activities while carefully monitoring market trends.

Under these business conditions, based on the Group's Fifth Mid-Range Business Plan (for the period from the fiscal year ended March 31, 2017 to the fiscal year ending March 31, 2019), the A.D.W. Group has set forth the 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 capabilities so that they can support the larger scale of our business," and then worked on a variety of measures to achieve these goals.

During the first three quarters, the Company carried out a non-commitment-type rights offering (non-discount-type exercise price) to raise growth money to achieve the Group's Fifth Mid-Range Business Plan. This succeeded in raising 3,888 million yen.

Construction began on the AD-O Shibuya Dogenzaka office building, which is the Company's first independent development, in July 2016, and was completed as planned on September 29, 2017.

In the first three quarters of this consolidated fiscal year, business in the US, based in Los Angeles, remained solid, and recorded sales of 4,133 million yen, accounting for 25.3% of consolidated sales.

The business results for the first three quarters are as shown in the table below. The Company had achieved 81.8% of its full-year forecast for sales and 79.4% of the full-year forecast for ordinary income as of the first three quarters. Other indicators were also steady.

Note that although pre-tax income was only up 11.3% YoY, while ordinary income was up 28.7% YoY, this is due to the fact that 86 million yen in profits from the sale of properties held for long-term sale was recorded in the same period of the previous fiscal year as extraordinary income. In addition, net income was only up 5.8% while pre-tax income was 11.3%. This was due to a YoY increase in the ratio of taxable income from the US, which has a higher tax rate than Japan.

(Units: Millions of yen)

	Fiscal year ending March 31, 2018 (full-year plan)		First three quarters, year ended March 31, 2017 (results)		First three quarters, year ending March 31, 2018 (results)			
	Amount	Ratio	Amount	Ratio	Amount	Ratio	YoY	Full-year plan progress
Sales	20,000	100.0%	13,439	100.0%	16,358	100.0%	+21.7%	81.8%
(Property sales)	—	—	(12,050)	(89.6%)	(14,519)	(88.7%)	(+20.5%)	—
(Stock)	—	—	(1,555)	(11.6%)	(2,104)	(12.9%)	(+35.3%)	—
(Internal sales)	—	—	(-166)	(-1.2%)	(-265)	(-1.6%)	—	—
EBITDA	1,400	7.0%	926	6.9%	1,024	6.3%	+10.7%	73.2%
Ordinary income	900	4.5%	555	4.1%	714	4.4%	+28.7%	79.4%
Pre-tax income	900	4.5%	642	4.8%	714	4.4%	+11.3%	79.4%
Net income	580	2.9%	416	3.1%	440	2.7%	+5.8%	75.9%

Note 1: "Property sales," "Stock," "Pre-tax income," and "Net income" are the abbreviations for "Income property sales business," "Stock-type fee business," "Net income before taxes and other adjustments," and "Net income attributable to owners of parent", respectively.

Note 2: EBITDA (Operating income before depreciation and amortization): Operating income + Depreciation and amortization + Profits or losses on sales of income properties that are recorded in Extraordinary gains or losses. Depreciation and amortization include depreciation, software amortization, amortization of goodwill, and other expenses that do not involve cash disbursement.

In addition, we include income properties held for long-term sale in fixed assets, and we have recorded part of the gain or loss on sales from the income properties held for long-term sale in the section of extraordinary gains or losses on the consolidated profit and loss statement. EBITDA is calculated by including extraordinary gains and losses.

A summary of the segment results is as follows. Note that the A.D.W. Group considers operating income to be segment income.

(Income property sales business)

Sales were 14,519 million yen, EBITDA was 1,009 million yen, and operating income was 1,000 million yen, generally in line with initial forecasts. The balance of income properties, which will be a prime source of future profits, was 21,008 million yen, versus 20,318 million yen at the end of the previous fiscal year.

Clients put their trust in our one-stop service, encompassing services ranging from renovation, property management, and asset management advice, and we sold 25 properties in Japan and 16 properties in the United States. Sales progress in the US has been particularly rapid, contributing to revenue in the first three quarters.

When acquiring income properties as real estate prices continue to rise, we have carefully focused on the profitability of each property. As a result, we completed acquisitions of 32 properties in Japan and 16 properties in the United States, recording a total acquisition amount of 11,669 million yen.

The balance of income properties increased over the end of the previous fiscal year during the first three quarters as we made purchases while watching trends in the income properties market.

(Stock-type fee business)

Sales were 2,104 million yen, EBIDTA was 827 million yen, and operating income was 768 million yen. Sales of transaction support and construction revenue also increased, contributing to earnings.

The balance of income properties during the fiscal year stood at 17,532 million yen in same period in the previous fiscal year (first three quarters of previous fiscal year), and increased to 18,917 million yen in the first three quarters of this fiscal year. Our business of contracting property management for income properties after they are sold remains solid, and at the end of the first three quarters, 4,528 properties were under management (4,157 at the end of the previous fiscal year). Due to these factors, rental income and property management income increased, reinforcing the stable revenue base.

Opportunities for orders for construction and transaction support has increased with the expansion of the scale of our business, and sales related to construction revenue and transaction support also increased during the first three quarters.

(Note) The operating income for each segment is calculated before the deduction of expenses not allocated to any segment such as corporate expenses and operating expenses from intersegment sales or transfers, and the total of operating income for each segment does not match consolidated operating income.

(2) Forecast for the next fiscal year

Based on the basic policy of the Fifth Mid-Range Business Plan, the A.D.W. Group will focus on the following four measures.

Ⅰ. Continually expanding the scale of our income property business in Japan

Ⅱ. Expanding the balance of our income properties in the United States

Ⅲ. Development of a business that will become a new pillar of future earnings

Ⅳ. Restructuring of capabilities

(Consolidated results plan for the year ending March 31, 2018)

(Units: Millions of yen)

	Year ended March 31, 2017 (results)	Year ending March 31, 2018 (plan)
Consolidated net sales	18,969	20,000
Consolidated EBITDA	1,216	1,400
Consolidated ordinary income	748	900
Consolidated net income before tax	835	900
Consolidated net income	540	580
Consolidated ROE (end of year)	8.5%	5.6%

Note 1: The business plans released by our company represent targets that we aim to achieve in our business, and are different from forecasts and predictions that are calculated rationally based on information that is considered to be highly accurate. Our company will update its progress forecast for each quarter, whenever necessary, based on the highly reliable information that is available at that time from the group, and on information that is judged to be reasonable.

Note 2: Consolidated ROE (end of year) is calculated by dividing net income by year-end shareholders' equity. Consolidated ROE (end of year) is expected to decline in the fiscal year ending in March 2018 since year-end shareholders' equity is expected to increase significantly due to the rights offering.

2. Consolidated Financial Statements

(1) Consolidated balance sheets

(Units: Thousands of yen)

	Previous consolidated fiscal year (year ended March 31, 2017)	Current consolidated first three quarters (December 31, 2017)
Assets		
Current assets		
Cash and deposits	4,425,499	7,753,757
Accounts receivable - trade	110,053	151,097
Real estate for sale	17,490,706	20,826,860
Real estate for sale in process	1,594,068	181,589
Other	523,682	494,724
Allowance for doubtful accounts	(998)	(309)
Total current assets	24,143,012	29,407,719
Non-current assets		
Property, plant and equipment		
Land	638,283	—
Other, net	684,711	83,741
Total property, plant and equipment	1,322,995	83,741
Intangible assets	84,867	71,441
Investments and other assets		
Investment securities	109,334	110,158
Other	172,516	189,798
Total investments and other assets	281,850	299,956
Total non-current assets	1,689,712	455,139
Deferred assets		
Share issuance cost	-	74,743
Total deferred assets	-	74,743
Total assets	25,832,725	29,937,602
Liabilities		
Current liabilities		
Accounts payable - trade	660,311	570,818
Short-term loans payable	2,915,915	1,989,430
Current portion of bonds	189,500	972,000
Current portion of long-term loans payable	1,062,010	2,236,648
Income taxes payable	164,912	49,237
Provision	30,616	58,103
Other	1,307,790	1,288,367
Total current liabilities	6,331,057	7,164,605
Non-current liabilities		
Bonds payable	1,038,250	630,000
Long-term loans payable	12,000,318	11,898,847
Other	47,939	17,365
Total non-current liabilities	13,086,508	12,546,213
Total liabilities	19,417,565	19,710,819
Net assets		
Shareholders' equity		
Capital stock	1,944,554	3,889,472
Capital surplus	1,893,232	3,832,477
Retained earnings	2,919,488	2,704,364
Treasury shares	(356,230)	(211,974)
Total shareholders' equity	6,401,044	10,214,340
Accumulated other comprehensive income		
Net unrealized gain on securities	(724)	13
Foreign currency translation adjustments	(3,984)	13,226
Deferred gains (losses) on hedges	(5,008)	(4,337)
Total accumulated other comprehensive income	(9,717)	8,902

(Units: Thousands of yen)

	Previous consolidated fiscal year (year ended March 31, 2017)	Current consolidated first three quarters (December 31, 2017)
Subscription rights to shares	23,832	3,540
Total net assets	6,415,159	10,226,783
Total liabilities and net assets	25,832,725	29,937,602

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

Consolidated Profit and Loss Statement

(Units: Thousands of yen)

	Previous consolidated first three quarters (April 1, 2016 - Dec. 31, 2016)	Current consolidated first three quarters (April 1, 2017 - Dec. 31, 2017)
Net sales	13,439,861	16,358,817
Cost of sales	10,842,359	13,421,301
Gross profit	2,597,502	2,937,516
Selling, general and administrative expenses	1,820,105	2,009,517
Operating income	777,396	927,999
Non-operating income		
Interest and dividend income	71	82
Insurance income	1,102	2,767
Other	24	38
Total non-operating income	1,198	2,888
Non-operating expenses		
Interest expenses	143,647	159,069
Borrowing fee	35,258	23,868
Other	44,369	33,261
Total non-operating expenses	223,276	216,199
Ordinary income	555,318	714,687
Extraordinary income		
Gain on sales of non-current assets	86,863	—
Total extraordinary income	86,863	—
Extraordinary loss		
Loss on retirement of non-current assets	—	54
Total extraordinary loss	—	54
Net income before taxes	642,181	714,632
Income taxes - current	225,933	274,383
Total income taxes	225,933	274,383
Net income	416,248	440,248
Net income attributable to owners of parent	416,248	440,248

Consolidated Profit and Loss Statement

(Units: Thousands of yen)

	Previous consolidated first three quarters (April 1, 2016 - Dec. 31, 2016)	Current consolidated first three quarters (April 1, 2017 - Dec. 31, 2017)
Net income	416,248	440,248
Other comprehensive income		
Net unrealized gain on securities	2,378	737
Foreign currency translation adjustment	75,336	17,210
Deferred gains (losses) on hedges	(4,566)	670
Total other comprehensive income	73,148	18,619
Comprehensive income	489,397	458,867
(attributable to)		
Comprehensive income attributable to owners of parent	489,397	458,867
Comprehensive income attributable to non-controlling interests	—	—