Summary of Earnings Report for First Quarter of Year Ending March 31, 2015

July 15, 2014

Name of listed company	A.D.Works, Ltd.	Listed stock exchange	Tokyo Stock Exchange
Code	3250	URL	http://www.re-adworks.com/
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Scheduled date of filing Financial Reports	August 8, 2014	Scheduled date of dividend payment:	—
Additional material of financial result:	Yes		
Result meeting:	No		

(Millions of Yen, rounded down)

1. Consolidated results for 1Q of the fiscal year ending March 31, 2015 (April 1, 2014 – June 30, 2014)

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

	Net Sales		Operating Income		Ordinary Income		Net Income	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
1Q, year ending March 31, 2015	1,479	(52.5)	108	(45.6)	65	(61.3)	36	(64.2)
1Q, year ended March 31, 2014	3,113	104.1	199	83.9	169	110.7	102	114.1

(Notes) Comprehensive income: 2015 1Q 36 million yen ((64.5%)), 2104 1Q 102 million yen (114.1%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
1Q, year ending March 31, 2015	0.16	0.16
1Q, year ended March 31, 2014	0.98	0.96

Note: On May 1, 2013, A.D.Works executed a 1:4 stock split of ordinary stock. On October 1, 2013 we also executed a 1:100 stock split of ordinary stock. The figures for net income per share and diluted net income per share were calculated assuming that these stock splits took place at the start of the previous consolidated fiscal year.

(2) Consolidated Financial Conditions

	Total Assets	Net Assets	Shareholders' equity ratio
	¥ millions	¥ millions	%
1Q, year ending March 31, 2015	14,863	5,457	36.6
End of fiscal year ended March 31, 2014	14,274	5,496	38.4

(Notes) Shareholders' equity: 2015 1Q 5.445 billion yen 2014 1Q 5.487 billion yen

2. Dividends Information

	Dividend per Share				
	1Q	Interim	3Q	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2014	—	0.00	—	0.35	0.35
Year ending March 31, 2015	—				
Year ending March 31, 2015 (forecast)		0.00	—	0.35	0.35

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

3. Consolidated Business Plan for Fiscal Year Ending March 31, 2105

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		Ordinary Income	
	¥ million	%	¥ million	%
Full Year	12,700	10.1	500	11.0

1. Qualitative Information Concerning this Quarterly Earnings Report

(1) Explanation of business results

During the first quarter of this consolidated fiscal year, despite uncertainty over the economies of emerging nations and diplomatic issues, as well as risk factors such as concerns about declining consumption caused by the hike in the consumption tax, the economy of Japan continued on a slow path to recovery, with a continuing correction to the high value of the yen and rising stock prices that are due to the effects of government economic policies and monetary easing by the Bank of Japan.

In the real estate market that surrounds the A.D.W. Group, land values in the Tokyo Metropolitan Area are continuing to rise, and the recovery in both the rental market and sales market is continuing to gain strength as the negative view of the real estate market conditions recedes. There continues to be very strong demand in the market for revenue-generating real estate, centered on high net-worth individuals, and real estate prices are continuing to rise.

In this kind of business environment and based on the Fourth Mid-range Business Plan (fiscal year ending March 31, 2015 – fiscal year ending March 31, 2017) that was announced on March 31, 2014, the A.D.W. Group has identified “expanding the scale of our business and stabilizing the profit base” and “applying the AD business model to create a closed market” as our basic policies, and we have begun new measures aimed at achieving further growth.

During the first quarter of this consolidated fiscal year, we carried out the planned sales of revenue-generating real estate in accordance with the policies of the above mid-range business plan, and also actively engaged in property acquisition activities. However compared with the first quarter of the previous fiscal year, when sales were particularly strong, the sales and income results for this quarter were lower. In addition to expanding the scale of our revenue-generating real estate business in Japan, we also worked to improve the value of the 5 properties which we previously acquired in California, U.S.A., and began full-scale sales activities for these properties. We also began full operation of the owners’ club “torch” that was launched in January 2014, aiming to strengthen relationships with the high net-worth individual customers who are the owners of the properties sold by A.D.Works. We also focused efforts on strengthening cooperation with external partners.

In order to further expand our company’s owners’ club “torch,” we have expanded the office floor space of our headquarters primarily for use in club operations. Due to the expenses for construction, fixtures, and other elements of this floor space expansion, we recorded a 5 million yen SG&A expense during this consolidated 1Q results period.

As a result of the above, sales during this consolidated 1Q results period were 1.479 billion yen (down 52.5% year-on-year), EBITDA was 114 million yen (down 44.0% year-on-year), operating income was 108 million yen (down 45.6% year-on-year), ordinary income was 65 million yen (down 61.3% year-on-year), and net income was 36 million yen (down 64.2% year-on-year).

An overview of each business segment is as follows.

In the revenue-generating real estate business operated by the A.D.Works Group, we expect each property to generate the following 3 types of income: rental revenue during the period that it is held by our company, income from when the property is sold after value improvements, and income from property management after the property is sold and other services. Based on the characteristics of this business, beginning from this consolidated 1Q period, we have changed some of the business segment names and business segments so that we can present information more clearly. These changes are the following.

- The name of the "revenue-generating real estate business" was changed to "revenue-generating real-estate sales business."
- Due to contraction of the "general residential real estate business," this business segment was eliminated.

[Business segments after the change]

(1) Revenue-generating real estate sales business: Income from sales of revenue-generating real estate

(2) Stock-type fee business: Rental income, income from property management and other services

Income which is not included in business segments (1) or (2) is listed under "other."

In the past, the period that our company held a revenue-generating real estate (revenue-generating real estate other than fixed assets) was in most cases less than 1 year. As a result, the full amount of interest on loans and corporate bond related to acquisition and holding of these properties was reported in the segment reports under the prior revenue-generating real estate segment. However as indicated in the information announced in the Fourth Mid-Range Business Plan, in the future in addition to real estate for short-term sale, we will plan to acquire a certain percentage of revenue-generating real estate to be held in the mid- and long-term. As a result, it is difficult to rationally record interest on loans and corporate bond which span multiple fiscal years separately for each segment within a 1 year business period. Therefore beginning from this consolidated 1Q, we have changed segment income from ordinary income to operating income.

(Revenue-generating real estate sales business)

In this segment, based on the business plan described above, we carried out sales of revenue-generating real estate while also strengthening our property acquisition activities. As a result, during this consolidated 1Q, although we sold 4 properties under continuing strong conditions in the revenue-generating real estate market, we sold 6 fewer properties compared to 1Q of the previous fiscal year when sales activities were particularly strong. However during this consolidated 1Q, we acquired 8 new properties (compared with 5 properties in the previous 1Q), and as a result our average balance of revenue-generating real estate grew to 10.611 billion yen (an increase of 107.7% year-on-year).

As a result of the above, sales in this business were 1.159 billion yen (down 52.6% year-on-year), EBITDA was 170 million yen (down 34.2% year-on-year), and operating income was 169 million yen (down 34.3% year-on-year).

(Stock-type fee business)

In this segment, we worked to expand our balance of revenue-generating real estate and to stabilize income by increasing rental revenue, and also to provide a range of property management and other services for revenue-generating real estate after it is sold. As a result, during this consolidated 1Q, rental revenue grew steadily to 159 million yen (up 70.1% year-on-year), and the number of revenue-generating real estate units managed by our company was 2,917 (as of June 30, 2014).

As a result of the above, sales in this business were 311 million yen (up 37.9% year-on-year), EBITDA was 112 million yen (up 59.1% year-on-year), and operating income was 109 million yen (up 61.1% year-on-year).

(Other)

This business segment now contains the general residential real estate business (new houses), which has been contracting since the previous fiscal year. During this consolidated 1Q, we completed the sales of all remaining such new houses in our inventory.

As a result of the above, sales in other business were 42 million yen, and we recorded an operating loss of 2 million yen.

Note: 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 consolidate operating income.

(3) Explanation of consolidated results forecasts and other future forecasts

Beginning from this fiscal year, the A.D.W. Group is focusing on the following 4 measures which are based on the basic policies of the Fourth Mid-Range Business Plan described in 1 (1).

[1] Add to the balance of revenue-generating real estate.

[2] Shift to a stable profit model.

[3] Provide high added-value to owners (customers) and reduce costs.

[4] Establish a unique position in the real estate industry.

Steady progress was made during this consolidated 1Q, and there are no changes to the consolidated results plan for the year ending March 31, 2015 that was announced on March 31, 2014.

(Consolidated results plan for the year ending March 31, 2015)

(Units: Millions yen)

	Year ended March 31, 2014 (actual)	Year ending March 31, 2015 (plan)
Consolidated sales	11,537	12,700
Consolidated EBITDA	813	787
Consolidated ordinary income	450	500
Consolidated ROE (fiscal year-end)	4.9%	5.3%

3. Consolidated Financial Statements

(1) Consolidated balance sheets

(Units: Thousands yen)

	Previous consolidated fiscal year (March 31, 2014)	Consolidated 1Q of current fiscal year (June 30, 2014)
Assets		
Current assets		
Cash and savings	3,617,746	3,434,784
Accounts receivable	47,914	34,802
Revenue-generating real estate held for sale	8,939,011	9,637,528
Real estate for sale in process	146,319	212,434
Other	232,277	229,343
Allowance for doubtful accounts	(1,511)	(1,442)
Total current assets	12,981,757	13,547,450
Fixed assets		
Tangible fixed assets		
Land	869,853	869,853
Other (net)	259,892	283,863
Total tangible fixed assets	1,129,745	1,153,717
Intangible fixed assets	19,528	18,701
Investments and other assets	143,926	143,890
Total fixed assets	1,293,201	1,316,308
Total assets	14,274,958	14,863,759
Liabilities		
Current liabilities		
Accounts payable	411,976	247,345
Short-term loans payable	2,141,200	2,974,600
Current portion of bonds	139,500	139,500
Current portion of long-term loans payable	406,579	294,537
Corporate tax payable	79,552	32,422
Reserves	14,966	34,801
Other	751,784	706,039
Total current liabilities	3,945,558	4,429,246
Fixed liabilities		
Corporate bonds	1,106,750	1,085,750
Long-term loans payable	3,689,211	3,853,487
Other	37,380	37,380
Total fixed liabilities	4,833,341	4,976,617
Total liabilities	8,778,899	9,405,863
Net assets		
Shareholders' equity		
Capital stock	1,936,512	1,936,512
Capital surplus	1,883,142	1,883,142
Retained earnings	1,852,063	1,811,041
Treasury stock	(184,273)	(184,273)
Total shareholders' equity	5,487,444	5,446,422
Accumulated other comprehensive income		
Foreign currency translation adjustments	(427)	(718)
Total accumulated other comprehensive income	(427)	(718)

	Previous consolidated fiscal year (March 31, 2014)	Consolidated 1Q of current fiscal year (June 30, 2014)
Subscription rights to shares	9,042	12,193
Total net assets	5,496,058	5,457,896
Total liabilities and net assets	14,274,958	14,863,759

(Units: Thousands yen)

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

Consolidated Profit and Loss Statement

Consolidated 1Q

(Units: Thousands yen)

	Previous consolidated 1Q (April 1 2013 – June 30, 2013)	Current consolidated 1Q (April 1, 2014 – June 30, 2014)
Sales	3,113,457	1,479,743
Cost of sales	2,622,879	1,053,346
Gross profit on sales	490,577	426,397
Sales, general, and administrative expenses	291,408	318,040
Operating income	199,169	108,356
Non-operating income		
Interest and dividends income	118	65
Interest on refund	818	42
Subsidy income	636	-
Other	47	-
Total non-operating income	1,620	107
Non-operating expenses		
Interest paid	27,234	35,478
Other	4,484	7,602
Total non-operating expenses	31,718	43,080
Ordinary income	169,071	65,383
Net income before taxes	169,071	65,383
Income taxes – current	66,241	28,573
Total income taxes	66,241	28,573
Net income before minority interests	102,829	36,809
Net income	102,829	36,809

Consolidated Comprehensive Income Statement

Consolidated 1Q

(Units: Thousands yen)

	Previous consolidated 1Q (April 1 2013 – June 30, 2013)	Current consolidated 1Q (April 1, 2014 – June 30, 2014)
Net income before minority interests	102,829	36,809
Other comprehensive income		
Foreign currency translation adjustments	—	(290)
Total other comprehensive income	—	(290)
Comprehensive income	102,829	36,518
(attributable to)		
Owners of the parent company	102,829	36,518
Minority interests	—	—