

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

July 22, 2016

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

(Millions yen, rounded down)

1. Consolidated Results for the First Quarter of the Fiscal Year Ending March 31, 2017 (April 1, 2016– June 30, 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 quarter, year ending March 31, 2017	3,279	(28.5)	135	(53.9)	69	(72.1)	105	(35.1)
First quarter, year ended March 31, 2016	4,589	210.2	294	171.8	248	280.6	162	340.3

(Notes) Comprehensive income: 2017 1Q 35million yen ((77.7%)) 2016 1Q 177 million yen (385.6%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
First quarter, year ending March 31, 2017	0.49	0.48
First quarter, year ended March 31, 2016	0.75	0.75

(2) Consolidated Financial Conditions

	Total assets	Net Assets	Shareholders' Equity Ratio
	¥ millions	¥ millions	%
First quarter, year ending March 31, 2017	19,747	5,818	29.3
End of fiscal year ended March 31, 2016	17,925	5,842	32.6

(Notes) Shareholders' equity: 2017 1Q 5,793 billion yen End of 2016 5.836 billion 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	—	—	—	—	—
Year ending March 31, 2017 (forecast)	—	0.00	—	0.55	0.55

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

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 quarter of this consolidated fiscal year, while the economy of Japan saw continuing improvement in the hiring and income environments, overseas there were multiple economic downturn risks including the vote by the UK to leave the EU in June 2016, and concerns of a slowdown in China and emerging nations. In the domestic finance markets as well, investors moved to avert risk due to the effects of the overseas situation and other factors. In addition, the trend of rising stock prices reversed itself with a rising value of the yen and falling stock prices, producing a widespread feeling of uncertainty regarding the future.

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 quarter 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 addition, through operation of the A.D.Works "Royaltorch" owners' club, we worked to provide high-quality services that meet the needs of the customers (primarily high net-worth individuals) who are the owners of the properties which we sold, and strengthen our relationships of trust with them.

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

(Units:Millions yen)

	First quarter, year ending March 31, 2016		First quarter, year ending March 31, 2017		
	amount	% of sales	amount	% of sales	Change from previous year
Sales	4,589	100.0%	3,279	100.0%	71.5%
(Income property sales business)	(4,208)	(91.7%)	(2,852)	(87.0%)	(67.8%)
(Stock-type fee business)	(419)	(9.1%)	(468)	(14.3%)	(111.7%)
(Internal sales)	(-38)	(-0.8%)	(-41)	(-1.3%)	(109.5%)
EBITDA	306	6.7%	239	7.3%	78.3%
Ordinary income	248	5.4%	69	2.1%	27.8%
Net income before taxes	248	5.4%	156	4.8%	62.7%
Net income	162	3.5%	105	3.2%	64.9%

Note: "Net income" is an abbreviation of "net income attributable to owners of the parent company".

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 10 properties in Japan and 3 properties in the United States, for a total acquisition of 3.75 billion yen of properties during the first quarter of this consolidated fiscal year.

On the other hand, as the trend towards averting risk in the finance markets continues to strengthen, the profitability of our properties was highly evaluated by the customers and we sold 10 properties in Japan. Although the result for the first quarter of this consolidated fiscal year was down 32.2% year-on-year, we nonetheless recorded sales of 2.85 billion yen. The average balance of income properties during this quarter was 15.228 billion yen (up 19.2% year-on-year).

In terms of profits, EBITDA was 316 million yen (down 24.2% year-on-year) and operating income was 229 million yen (down 45.0% year-on-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. In the results from the first quarter of this consolidated fiscal year, our efforts at increasing the balance of income properties paid off, and produced sales of 468 million yen, up 11.7% year-on-year. On the other hand, there was an increase in expenses associated with this business, due primarily to higher depreciation resulting from the larger amount of income properties held for long-term sale, and to an increase in personnel expenses resulting from expanding the organization in preparation for future growth. Our business of contracting property management for income properties after they are sold remains strong, and the number of income properties under our management in Japan at the end of the first quarter of this consolidated fiscal year was 3,811 (compared with 3,389 at the end of the previous first quarter).

As a result of the above, sales were 468 million yen (up 11.7% year-on-year), EBITDA was 172 million yen (up 5.7% year-on-year), and operating income was 161 million yen (up 3.0% 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 next 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%

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 quarter (June 30, 2016)
Assets		
Current assets		
Cash and savings	2,607,377	3,101,372
Accounts receivable	97,775	97,274
Income properties held for sale	12,457,636	14,492,710
Real estate for sale in process	231,369	82
Other	396,848	431,553
Allowance for doubtful accounts	(1,565)	(1,429)
Total current assets	15,789,442	18,121,562
Fixed assets		
Tangible fixed assets		
Land	1,239,617	638,283
Other(net)	692,728	680,042
Total tangible fixed assets	1,932,346	1,318,325
Intangible fixed assets	61,920	60,889
Investments and other assets	142,115	246,644
Total fixed assets	2,136,382	1,625,860
Total assets	17,925,825	19,747,422
Liabilities		
Current liabilities		
Accounts payable	232,905	329,493
Short-term loans payable	1,593,750	3,982,201
Current portion of bonds	129,500	129,500
Current portion of long-term loans payable	1,120,444	370,786
Corporate tax payable	106,741	62,486
Reserve	14,961	25,395
Other	973,305	811,599
Total current liabilities	4,171,609	5,711,462
Fixed liabilities		
Corporate bonds	1,037,750	1,016,750
Long-term loans payable	6,789,902	7,147,295
Other	84,106	53,796
Total fixed liabilities	7,911,758	8,217,841
Total liabilities	12,083,368	13,929,304

(Units: Thousands yen)

	Previous consolidated fiscal year (March 31, 2016)	Current consolidated First quarter (June30, 2016)
Net assets		
Shareholders' equity	1,937,744	1,937,744
Capital stock	1,886,483	1,886,483
Capital surplus	2,457,085	2,484,260
Treasury stock	(397,471)	(397,471)
Total shareholders' equity	5,883,841	5,911,016
Accumulated other comprehensive income		
other difference in Securities valuation	—	(6,841)
Foreign currency translation adjustments	(46,481)	(110,335)
Deferred gains (losses) on hedges	(1,280)	—
Total accumulated other comprehensive income	(47,761)	(117,176)
Subscription rights to shares	6,376	24,277
Total net assets	5,842,456	5,818,118
Total liabilities and net assets	17,925,825	19,747,422

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

Consolidated Profit and Loss Statement

(Units: Thousands yen)

	Previous consolidated First quarter (April 1, 2015 – June 30, 2015)	Current consolidated First quarter (April 1, 2016 – June 30, 2016)
Sales	4,589,548	3,279,619
Cost of sales	3,735,949	2,605,139
Gross profit on sales	853,599	674,479
Sales, general, and administrative expenses	559,130	538,718
Operating income	294,468	135,761
Non-operating income		
Interest and dividends income	42	32
Insurance received	—	530
Interest on refund	14	8
Foreign exchange profit	1,992	—
Other		
Total non-operating income	2,048	570
Non-operating expenses		
Interest paid	40,813	42,926
Commission Paid	—	4,799
Foreign exchange loss	—	16,894
Other	6,868	2,518
Total non-operating expenses	47,681	67,139
Ordinary income	248,835	69,193
Extraordinary Income		
Gain on disposal of fixed assets	—	86,863
Total extraordinary Income		86,863
Net income before taxes	248,835	156,056
Income taxes – current	86,771	50,955
Total income taxes	86,771	50,955
Net income	162,064	105,101
Net income attributable to owners of parent	162,064	105,101

Consolidated Profit and Loss Statement

(Units: Thousands yen)

	Previous consolidated First quarter (April 1, 2015 – June 30, 2015)	Current consolidated First quarter (April 1, 2016 – June 30, 2016)
Net income before minority interests	162,064	105,101
Other comprehensive income		
other difference in Securities valuation	—	(6,841)
Foreign currency translation adjustments	14,743	(63,854)
Deferred gains (losses) on hedges	542	1,280
Total other comprehensive income	15,285	(69,414)
Comprehensive income	177,349	35,686
(attributable to)		
Owners of the parent company	177,349	35,686
Minority interests	—	—