

Summary of Earnings Report for First Quarter of Year Ending March 31, 2019

July 31, 2018

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 August 9, 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 Quarter of the Fiscal Year Ending March 31, 2019 (April 1, 2018–June 30, 2018)

(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 quarter, year ending March 31, 2019	4,647	(24.9)	208	(48.8)	121	(65.0)	(306)	(238.0)
First quarter, year ended March 31, 2018	6,185	88.6	407	200.1	347	402.1	221	111.1

(Notes) Comprehensive Income: 2019 1Q (151) million yen (171.2%) 2018 1Q 212 million yen (496.0%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
First quarter, year ending March 31, 2019	(0.95)	(0.95)
First quarter, year ended March 31, 2017	0.70	0.70

(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 quarters, year ending March 31, 2019	31,603	9,966	31.5
End of fiscal year ended March 31, 2018	30,801	10,152	32.9

(Notes) Shareholders' equity: 2019 1Q 9,962 million yen End of 2018 10,148 million yen

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.

2. Dividends Information

	Dividend per Share				
	1Q	Interim	3Q	Year end	Total
Fiscal year ended March 31, 2018	Yen —	Yen 1.65	Yen —	Yen 0.35	Yen 2.00
Fiscal year ending March 31, 2019					
Fiscal year ending March 31, 2019 (forecast)		0.00	—	0.35	0.35

(Notes)

Correction to most recently announced dividend forecast: None

3. Consolidated Business Plan for Fiscal Year Ending March 31, 2019

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	24,000	7.6	1,600	18.7	1,000	7.9	1,000	8.2	660	13.0

1. Qualitative Information Concerning this Quarterly Earnings Report

(1) Explanation of business results

During the first quarter of this consolidated fiscal year (hereafter, “the first quarter”), the Japanese economy continued a gradual recovery on the back of improved employment conditions as corporate earnings grow with a recovery in personal spending and higher exports, among other factors. In the US, where the Group’s overseas base is located, the economy continues to expand, supported by higher personal spending, a boost in capital spending, and better employment conditions.

In the business environment related to income properties in urban areas, which is the Group’s main business area, the number of inventory properties continues to rise over the same period in the previous year, and the outlook for supply/demand remains uncertain. At the same time, in the Los Angeles metropolitan area where the Group’s overseas office is located, the contractual price for detached homes continued to rise and inventory was stable.

In this business environment, the A.D. Works Group has set as its basic policies “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,” 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), and then worked on a variety of measures to achieve these goals.

The business results for the first quarter are shown in the table below.

(Units: Millions of yen)

	Fiscal year ending March 31, 2019 (full-year plan)		Fiscal year ended March 31, 2018 (results)		Fiscal year ending March 31, 2019 (results)			
	Amount	Ratio	Amount	Ratio	Amount	Ratio	YoY	Full-year plan progress
Sales	24,000	100.0%	6,185	100.0%	4,647	100.0%	-24.9%	19.4%
(Property sales)	—	—	(5,623)	(90.9%)	(3,999)	(86.1%)	(-28.9%)	—
(Stock)	—	—	(682)	(11.0%)	(752)	(16.2%)	(+10.1%)	—
(Internal sales)	—	—	(-120)	(-1.9%)	(-104)	(-2.2%)	—	—
EBITDA	1,600	6.7%	436	7.1%	249	5.4%	-42.8%	15.6%
Ordinary income	1,000	4.2%	347	5.6%	121	2.6%	-65.0%	12.2%
Pre-tax income or pre-tax loss (in parentheses)	1,000	4.2%	347	5.6%	(635)	—	—	—
Net income or net loss (in parentheses)	660	2.8%	221	3.6%	(306)	—	—	—

Note 1: “Property sales,” “Stock,” “Pre-tax income or pre-tax loss,” and “Net income or net loss” are the abbreviations for “Income property sales business,” “Stock-type fee business,” “Net income before taxes and other adjustments or net losses before taxes and other adjustments,” and “Net income attributable to owners of parent or net loss 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 the first quarter, the Group posted a 306 million yen net loss due to the posting of a 757 million yen reserve in prior years consumption taxes as an extraordinary loss.

As a result of tax examinations carried out by the Tokyo Regional Taxation Bureau from November 2017, the Group received a notice of correction requiring that the Group pay additional consumption taxes for the period from the fiscal year ended March 31, 2015 to the fiscal year ended March 31, 2017, the period for which the tax examination was carried out, as well as a 537 million yen additional charge. Based on this, the Group decided to post a 757 million yen extraordinary loss in the first quarter, the sum of the aforementioned penalty and an estimated 220 million yen in additional consumption taxes for the fiscal period ended in March 2018 (which was not covered by the Tokyo Regional Taxation Bureau's examination) based on estimates assuming tax treatment similar to the opinion laid out in the notice of correction.

Given the substance of the law, as well as the fact that the Group has never been instructed to take corrective action during past tax examinations, during which time the Group has continued to use the same accounting approach, the Group believes that its previous tax treatment was appropriate. We plan to consider filing an appeal in this matter.

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 3,999 million yen, EBITDA was 284 million yen, and operating income was 283 million yen.

The balance of income properties, which will be a prime source of future profits and is also part of the source of revenue for the stock-type fee business, was 22,914(Note2) million yen, exceeding the 537 million yen at the end of the previous fiscal year.

We sold nine properties in Japan and six properties in the United States, but as sales of income properties that were mid-sized or smaller accounted for the majority of sales in the first quarter, sales fell short of levels in the same period in the previous year.

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 four properties in Japan and five properties in the United States, recording a total acquisition amount of 3,396 million yen.

(Stock-type fee business)

Sales were 752 million yen, EBITDA was 260 million yen, and operating income was 229 million yen.

The balance of income properties during the fiscal year stood at 19,215 million yen in same period in the previous fiscal year, and increased to 22,701 million yen in the first quarters of this fiscal year. In our business of contracting property management for income properties after they are sold, at the end of the first quarter, 4,578 properties were under management (4,243 at the end of the previous fiscal year). Due to these factors, rental income and property management income increased, reinforcing the stable revenue base.

(Note1)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.

(Note2) The 22,914 million yen income real estate balance does not include the reserves (19 million yen) for the estimated consumer tax payment posted as an asset as a result of the notice of correction received from the Tokyo Regional Taxation Bureau regarding consumption tax payments for prior years.

(2) Forecast for the next fiscal year

A.D. Works releases its earnings plans as a management target. These differ from earnings projections or earnings forecasts, which are calculated rationally based on highly accurate information.

At this point, we regularly update and disclose forecasts for our quarterly progress as “forecasts,” based on information that is highly accurate for the Group overall at that point and that we deem to be rational.

Earnings plans for the fiscal year ending on March 31, 2019 are as follows.

(Units: Millions of yen)

	Year ended March 31, 2018 (results)	Year ending March 31, 2019 (plan)
Consolidated net sales	22,299	24,000
Consolidated EBITDA	1,348	1,600
Consolidated ordinary income	926	1,000
Consolidated net income before tax	924	1,000
Consolidated net income	584	660
Consolidated ROE (end of year)	5.8%	6.2%

2. Consolidated Financial Statements

(1) Consolidated balance sheets

(Units: Thousands of yen)

	Previous consolidated fiscal year (year ended March 31, 2018)	Current consolidated first quarter (June 30, 2018)
Assets		
Current assets		
Cash and deposits	7,169,631	7,233,943
Accounts receivable - trade	117,013	100,532
Real estate for sale	21,899,672	22,444,778
Real estate for sale in process	476,536	488,276
Other	489,131	319,950
Allowance for doubtful accounts	(116)	(320)
Total current assets	30,151,868	30,587,161
Non-current assets		
Property, plant and equipment		
Other, net	77,562	75,178
Total property, plant and equipment	77,562	75,178
Intangible assets	65,957	60,530
Investments and other assets	438,497	819,969
Total non-current assets	582,017	955,679
Deferred assets		
Share issuance cost	67,518	60,293
Total deferred assets	67,518	60,293
Total assets	30,801,404	31,603,134
Liabilities		
Current liabilities		
Accounts payable - trade	711,085	414,905
Short-term loans payable	2,357,500	2,285,940
Current portion of bonds	958,250	912,250
Current portion of long-term loans payable	2,579,349	3,125,756
Income taxes payable	268,532	17,140
Provision	—	76,923
Other	1,490,764	2,078,418
Total current liabilities	8,365,483	8,911,333
Non-current liabilities		
Bonds payable	555,000	555,000
Long-term loans payable	11,683,769	12,127,266
Other	45,071	43,405
Total non-current liabilities	12,283,841	12,725,672
Total liabilities	20,649,324	21,637,005
Net assets		
Shareholders' equity		
Capital stock	3,891,078	3,891,078
Capital surplus	3,834,083	3,834,651
Retained earnings	2,848,332	2,429,170
Treasury shares	(211,974)	(133,959)
Total shareholders' equity	10,361,520	10,020,940
Accumulated other comprehensive income		
Net unrealized gain on securities	(4,403)	(1,675)
Foreign currency translation adjustments	(201,394)	(49,931)
Deferred gains (losses) on hedges	(7,184)	(6,746)
Total accumulated other comprehensive income	(212,981)	(58,352)
Subscription rights to shares	3,540	3,540
Total net assets	10,152,079	9,966,128
Total liabilities and net assets	30,801,404	31,603,134

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

Consolidated Profit and Loss Statement

First quarter of consolidated fiscal year

(Units: Thousands of yen)

	Previous consolidated first quarter (April 1, 2017 - June 30, 2017)	Current consolidated first quarter (April 1, 2018 - June 30, 2018)
Net sales	6,185,589	4,647,184
Cost of sales	5,120,037	3,762,715
Gross profit	1,065,552	884,468
Selling, general and administrative expenses	658,111	675,928
Operating income	407,440	208,540
Non-operating income		
Interest and dividend income	33	30
Insurance income	294	1,652
Foreign exchange gains	3,266	—
Other	21	131
Total non-operating income	3,615	1,813
Non-operating expenses		
Interest expenses	59,259	60,248
Borrowing fee	1,930	17,540
Foreign exchange loss	—	355
Other	2,412	10,442
Total non-operating expenses	63,602	88,587
Ordinary income	347,453	121,767
Extraordinary loss		
Prior year consumption taxes	—	757,484
Total extraordinary loss	—	757,484
Net income before taxes	347,453	(635,717)
Income taxes - current	125,540	(329,586)
Total income taxes	125,540	(329,586)
Net income	221,913	(306,130)
Net income attributable to owners of parent	221,913	(306,130)

Consolidated Profit and Loss Statement

First quarter of consolidated fiscal year

	(Units: Thousands of yen)	
	Previous consolidated first quarter (April 1, 2017 – June 30, 2017)	Current consolidated first quarter (April 1, 2018 - June 30, 2018)
Net income	221,913	(306,130)
Other comprehensive income		
Net unrealized gain on securities	(274)	2,727
Foreign currency translation adjustment	(9,209)	151,463
Deferred gains (losses) on hedges	265	437
Total other comprehensive income	(9,217)	154,628
Comprehensive income	212,695	(151,501)
(attributable to)		
Comprehensive income attributable to owners of parent	212,695	(151,501)
Comprehensive income attributable to non-controlling interests	—	—