

Summary of Earnings Report for the Fiscal Year Ended March 31, 2016

May 12, 2016

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 shareholders' meeting: June 22, 2016 Scheduled date of dividend payment: June 23, 2016
 Scheduled date of filing: June 22, 2016
 Additional material of financial result: Yes
 Result meeting: Yes (Institutional investors and analysts)

(Millions yen, rounded down)

1. Consolidated Results for the Fiscal Year Ended March 31, 2016 (April 1, 2015–March 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	%
Fiscal year ended March 31, 2016	15,733	46.5	867	14.3	650	20.3	426	27.9
Fiscal year ended March 31, 2015	10,735	Δ6.9	759	Δ4.0	540	20.0	333	23.3

Notes Comprehensive Income Year ended March 2016 381 Million yen (15.2%) Year ended March 2015 331 Million yen (22.7%)

	Net Income per Share	Diluted Net Income per Share	Net Income on Equity	Ordinary Income on Total Assets	Operating Income Margin
	Yen	Yen	%	%	%
Fiscal year ended March 31, 2016	1.99	1.98	7.6	3.8	5.5
Fiscal year ended March 31, 2015	1.54	1.54	6.1	3.5	7.1

Notes Investment gain or loss on equity method: March 31, 2016 — Million yen March 31, 2015 — Million yen

(2) Consolidated financial conditions

	Total Assets	Net Assets	Shareholders' Equity ratio	Net Assets per Share
	¥ millions	¥ millions	%	Yen
Fiscal year ended March 31, 2016	17,925	5,842	32.6	27.20
Fiscal year ended March 31, 2015	16,681	5,478	32.8	25.65

(Notes) Shareholders' equity: March 31, 2016 5,836 Million yen March 31, 2015 5,471 Million yen

(3) Consolidated Cash Flow

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Period
	¥ millions	¥ millions	¥ millions	¥ millions
Fiscal year ended March 31, 2016	(1,395)	(51)	992	2,536
Fiscal year ended March 31, 2015	(1,426)	(885)	1,754	3,013

2. Dividends Information

	Dividend per Share					Amount of Total Dividend	Dividend ratio (consolidated)	Dividend ratio per Net Asset
	1Q	Interim	3Q	Year end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended March 31, 2015	—	0.00	—	0.35	0.35	77	22.7	1.4
Fiscal year ended March 31, 2016	—	0.00	—	0.35	0.35	77	17.6	1.3
Fiscal year ending March 31, 2017 (forecast)	—	0.00	—	0.55	0.55		22.4	

(Note) On this day, May 12, 2016, our company adopted a resolution of the Board of Directors relating to the issue of share subscription rights (equity commitment line) based on the conclusion of agreement for third-party allocation with commitment provision. However the payout ratio for the year ending March 31, 2017 (forecast) does not reflect the increase in the number of shares resulting from exercise of these share subscription rights. As a result, the payout ratio for the year ending March 31, 2017 (forecast) may change depending on the exercise status of these share subscription rights.

3. Consolidated Business Plan for 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

(Note) Consolidated sales, consolidated ordinary income, and consolidated net income are equal to the sales, ordinary income, and net income attributable to owners of the parent company in the consolidated profit and loss statement.

1. Analysis of Business Results and Financial Conditions

(1) Analysis of business results

[1] Business results for this fiscal year

During this consolidated fiscal year, the economy of Japan saw improvements in corporate earnings and in the hiring and income environments, backed by the economic and monetary policies of the government and the Bank of Japan. However there remains a sense of uncertainty regarding the future due to factors including the unstable international situation and a slowing recovery in personal spending, as well as the violent fluctuations in the exchange rate and stock prices that have continued since the start of the year.

In the business environment surrounding the A.D.W. Group, conditions in both the rental market and sales market were good as a result of the rising trend in Tokyo Metropolitan Area land prices. Continuing strong buying demand centered on high net-worth individuals also favored the income property market as well, and overall business conditions continued to be strong.

In this kind of business environment and based on the Fourth Mid-range Business Plan announced March 31, 2014, the A.D.W. Group 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 engaged in various measures for this purpose.

As a result of our focus on sales and acquisitions of income properties both in Japan and overseas during this consolidated fiscal year, in comparison with the full-year consolidated business plan that was announced at the start of the year, sales achievement was 126.9% (initial plan: 12.4 billion yen), EBITDA achievement was 99.1% (initial plan: 935 million yen), and ordinary income achievement was 108.4% (initial plan: 600 million yen). In keeping with the policy of the above mid-range business plan, we actively carried out acquisition activities in Japan and overseas, and also engaged in sales of income properties, and as a result we achieved a large increase in income compared with the previous consolidated fiscal year.

In addition to this, 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. We also worked to provide more precise consulting and otherwise strengthen our client relation functions in order to maximize real estate investment efficiency for each individual owner.

As a result of the above, sales during this period were 15.733 billion yen (up 46.5% from the previous year), EBITDA was 926 million yen (up 17.1% from the previous year), operating income was 867 million yen (up 14.3% from the previous year), ordinary income was 650 million yen (up 20.3% from the previous year), and net income attributable to owners of the parent company was 426 million yen (up 27.9% from the previous year).

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, we further reinforced acquisitions while also focusing on sales of income properties, backed by strong demand centered on high net-worth individuals.

As a result of our focus on acquisition activities and our acquisition of 12.325 billion yen of income properties (up 41.5% from the previous year) in Japan and overseas during this consolidated fiscal year, the balance of income properties at the end of this consolidated fiscal year was 13.762 billion yen (up 17.7% from the previous year).

Backed by continuing strong activity in the income properties market, in addition to continued steady sales activities in Japan, we also worked to cultivate needs among Japanese customers for income properties in the United States. As a result, we were able to sell 36 buildings in Japan and 4 in the United States, for a total of 40 buildings sold (11 more than the previous year).

As a result of the above, sales were 14.132 billion yen (up 50.5% from the previous year), EBITDA was 1.182 billion yen (up 10.2% from the previous year), and operating income was 1.181 billion yen (up 10.2% from the previous year)

(Stock-type fee business)

In this business segment, as a result of working to expand the balance of income properties in order to accelerate the shift to a stable profit structure, high profit-margin rental income increased steadily to 842 million yen (up 17.5% from the previous year), increasing its contribution to profits. We also continued to steadily receive contracts for property management of income properties after their sales, and the number of income properties under our management reached 3,649 (up 356 from the previous year).

As a result of the above, sales were 1.821 billion yen (up 25.5% from the previous year), EBITDA was 596 million yen (up 9.3% from the previous year), and operating income was 560 million yen (up 4.5% from the previous year).

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 consolidated operating income.

[2] Forecast for the next fiscal year

On this day, May 12, 2016, A.D.Works announced the three-year Fifth Mid-Range Business Plan (year ending March 31, 2017 - year ending March 31, 2019), with the next year (year ending March 31, 2017) being the first year of this plan. The basic policy of this Fifth Mid-Range Business Plan comprises the following.

- I. Strategic expansion of the balance of income properties in order to establish a solid business foundation and achieve a stable profit base
- II. Development and expansion of business which will become a new pillar of future earnings
- III. Restructuring of capabilities so that they can support the larger scale of our business

Based on the above basic policies of the Fifth Mid-Range Business Plan, we will focus on carrying out the following four actions during the next fiscal year.

- (1) Continually expanding the scale of income property business in Japan
- (2) Expanding the balance of income properties in the United States
- (3) Development of business that will become a new pillar of future earnings
- (4) Restructuring of capabilities (including restructuring of the mechanism/system for achieving both quality and quality in property management, strengthening of asset management functions, and expansion of the "Royaltorch" owners' club that is operated by our company)

As we carry out the above four actions, we will strive for an optimal balance between the income property turnover rate and balance. We have adopted a strategy of ensuring certain percentages of income properties held for short or medium-term sale, income properties held for long-term sale, and overseas (U.S.) income properties in order to increase the rental income that is expected to yield a high profit margin during the period when the properties are owned by our company. We intend to prioritize this strategy during the next fiscal year.

By carrying out this strategy, we intend to expand the scale of our business by actively increasing the balance of income properties, and at the same time to construct a more stable A.D.Works profit base.

The planned consolidated ROE (year-end) for the next fiscal year is 6.4%. On this day, May 12, 2016, we released the "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". This is intended so that we can obtain the necessary funds for actively increasing the balance of income properties as described above. The ROE figure of 6.4% assumes that all of these subscription rights are exercised.

We will work to increase consolidated ROE by continuing to increase high profit-margin rental income year by year, increasing its impact on company earnings, while at the same time working to achieve an optimal balance between the income property turnover rate and balance.

As a result of the above, the planned values for consolidated results in the fiscal year ending March 31, 2017 are sales of 16.5 billion yen (up 4.9% from the previous fiscal year), ordinary income of 800 million yen (up 23.0% from the previous fiscal year) and net income attributable to owners of the parent company of 528 million yen (up 23.7% from the previous year). We are also announcing a value for consolidated EBITDA as an index of the cash generated by the primary business of the A.D.W. Group. The planned value for consolidated EBITDA in the next fiscal year is 1.200 billion yen (up 29.5% from the previous fiscal year).

(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	426	528
Consolidated ROE (end of year)	7.3%	6.4%

(Note 1) Consolidated EBITDA (Earnings before depreciation, etc.): Consolidated operating income + Depreciation and amortization, etc.)

Depreciation and amortization, etc. includes depreciation, software amortization, amortization of goodwill, and other expenses which do not involve cash disbursement. In addition, we have categorized a portion of the income properties in Japan that are held for long-term sale as "fixed assets". Income resulting from sale of these income properties will be recorded as extraordinary income in the consolidated profit and loss statement. In this case, this extraordinary income will also be added to the result value for consolidated EBITDA.

(Note 2) Calculation of the planned value for consolidated ROE

On this day, May 12, 2016, A.D.Works announced that it will conduct equity financing by the issue of share subscription rights (equity commitment line) based on the conclusion of third party allocation agreement with commitment provision. The calculation for the planned value of consolidated ROE included the planned amount of funds procurement from this equity commitment line (upper limit amount). However if the subscription rights are not exercised during the rights exercise period, or if subscription rights acquired by our company are cancelled, then the actual amount of funds procured by the equity commitment line may be less.

(Guideline for the balance of income properties during the year ending March 31, 2017)

(Units: Millions yen)

	Year ended March 31, 2016 (result)	Year ending March 31, 2017 (guideline)
Total balance of income properties (at year end)	14,551	20,000

Because expansion of the balance of income properties during the Fourth Mid-Range Business Plan proceeded ahead of schedule, the "Notice Related to Formulation of the Fifth Mid-Range Business Plan (Year Ending March 31, 2017 - Year Ending March 31, 2019)" was released on this day, May 12, 2016. For details of this mid-range business plan, please refer to these released materials.

On this day, May 12, 2016, A.D.Works also released the "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". Regarding the details of the Fifth Mid-Range Business Plan and the equity financing, we have voluntarily issued a release titled "A.D.Works Policy Regarding Implementation of the Fifth Mid-Range Business Plan and Financing that were Announced on this Date" that is intended to improve shareholder understanding. Please also refer to it.

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 forecast of progress for each quarter whenever necessary based on highly reliable information which is available at that time from throughout the group, and on information that is judged to be reasonable.

2. Consolidated Financial Statements

(1) Consolidated balance sheets

(Units: Thousands yen)

	Previous consolidated fiscal year (year ended March 31, 2015)	Current consolidated fiscal year (year ended March 31, 2016)
Assets		
Current assets		
Cash and savings	3,081,935	2,607,377
Accounts receivable	73,259	97,775
Revenue-generating real estate held for sale	10,975,508	12,457,636
Real estate for sale in process	77,017	231,369
Deferred tax assets	92,822	108,039
Other	207,214	288,808
Allowance for doubtful accounts	(2,223)	(1,565)
Total current assets	14,505,534	15,789,442
Fixed assets		
Tangible fixed assets		
Buildings	756,603	772,824
Accumulated depreciation	(67,308)	(100,545)
Buildings (net)	*1 689,294	*1 672,279
Vehicles	—	2,650
Accumulated depreciation	—	(353)
Vehicles (net)	—	2,297
Tools, furniture, and fixtures	43,678	45,851
Accumulated depreciation	(22,633)	(27,699)
Tools, furniture, and fixtures (net)	21,045	18,151
Land	*1 1,239,470	*1 1,239,617
Construction in progress account	5,160	—
Total tangible fixed assets	1,954,970	1,932,346
Intangible fixed assets		
Other	61,095	61,920
Total intangible fixed assets	61,095	61,920
Investments and other assets		
Investment securities	500	500
Deferred tax assets	30,001	7,826
Others	129,167	133,789
Total investments and other assets	159,669	142,115
Total fixed assets	2,175,735	2,136,382
Total assets		17,925,825
Liabilities		
Current liabilities		
Accounts payable	450,352	232,905
Short-term loans payable	*1 3,921,703	*1 1,593,750
Current portion of bonds payment	*1 139,500	*1 129,500
Current portion of long-term loans payable	*1 999,369	*1 1,120,444
Corporate tax payable	157,174	106,741
Reserve for stock benefits	17,463	14,961
Other	864,367	973,305
Total current liabilities	6,549,930	4,171,609
Fixed liabilities		
Corporate bonds	*1 967,250	*1 1,037,750
Long-term loans payable	*1 3,601,167	*1 6,789,902
Other	84,018	84,106
Total fixed liabilities	4,652,435	7,911,758
Total liabilities		12,083,368

(Units: 1,000s yen)

	Previous consolidated fiscal year (year ended March 31, 2015)	Current consolidated fiscal year (year ended March 31, 2016)
Net assets		
Shareholders' equity		
Capital stock	1,937,744	1,937,744
Capital surplus	1,885,962	1,886,483
Retained earnings	2,108,105	2,457,085
Treasury stock	(457,977)	(397,471)
Total shareholders' equity	5,473,834	5,883,841
Accumulated other comprehensive income		
Foreign currency translation adjustments	3,557	(46,481)
Deferred gains (losses) on hedges	(6,318)	(1,280)
Total accumulated other comprehensive income	(2,761)	(47,761)
Subscription rights to shares	7,830	6,376
Total net assets	5,478,903	5,842,456
Total liabilities and net assets	16,681,270	17,925,825

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

(Units: Thousands yen)

	Previous consolidated fiscal year (April 1, 2014 – March 31, 2015)	Current consolidated fiscal year (April 1, 2015 – March 31, 2016)
Sales	10,735,735	15,733,153
Cost of sales	8,206,061	12,767,638
Gross profit on sales	2,529,673	2,965,515
Sales, general, and administrative expenses	1,770,150	2,097,675
Operating income	759,522	867,839
Non-operating income		
Interest and dividends income	648	488
Interest on refund	239	14
Subsidy income	27	942
Insurance received	969	300
Misc income	1,200	1,318
Other	197	–
Total non-operating income	3,281	3,064
Non-operating expenses		
Interest paid	153,296	161,335
Fee paid	24,311	17,382
Foreign exchange loss	2,541	22,751
Cost of upgrading stock exchange	30,000	–
Other	12,012	18,777
Total non-operating expenses	222,162	220,245
Ordinary income	540,642	650,658
Extraordinary losses		
Loss on disposal of fixed assets	1,050	–
Total extraordinary losses	1,050	–
Net income before taxes	539,591	650,658
Income taxes – current	233,548	218,829
Income taxes adjustment	(27,830)	4,950
Total income taxes	205,717	223,780
Net income	333,873	426,878
Net income attributable to owners of parent	333,873	426,878

Consolidated Profit and Loss Statement

(Units: Thousands yen)

	Previous consolidated fiscal year (April 1, 2014 – March 31, 2015)	Current consolidated fiscal year (April 1, 2015 – March 31, 2016)
Net income before minority interests	333,873	426,878
Other comprehensive income		
Foreign currency translation adjustments	3,984	(50,038)
Deferred gains (losses) on hedges	(6,318)	5,037
Total other comprehensive income	(2,333)	(45,000)
Comprehensive income	331,540	381,877
(attributable to)		
Owners of the parent company	331,540	381,877
Minority interests	—	—

(4) Consolidated Statements of Cash Flows

(Units: Thousands yen)

	Previous consolidated fiscal year (April 1, 2014 – March 31, 2015)	Current consolidated fiscal year (April 1, 2015 – March 31, 2016)
Cash flows from operating activities		
Net income before taxes	539,591	650,658
Depreciation cost	31,952	59,155
Increase (decrease) in allowances	711	(658)
Increase (decrease) in allowances of stock issuance	2,497	(2,502)
Interest and dividends income	(648)	(488)
Interest paid	153,296	161,335
Decrease (increase) in notes and accounts receivable – trade	(24,491)	(26,574)
Increase (decrease) in notes and accounts payable – trade	37,885	(215,949)
Decrease (increase) in inventory assets	(1,810,945)	(1,698,786)
Other	(41,251)	127,891
Subtotal	(1,111,401)	(945,918)
Interest and dividend income	648	488
Interest paid	(147,567)	(159,508)
Income taxes refunded (paid)	(168,670)	(290,691)
Cash flows from operating activities	(1,426,990)	(1,395,629)
Cash flow from investing activities		
Payments for purchase of tangible fixed assets	(845,794)	(21,261)
Payments for purchase of intangible fixed assets	(39,407)	(19,231)
Payments for refund of deposits	(969)	(11,892)
Other	895	791
Cash flow from investing activities	(885,277)	(51,593)
Cash flow from financing activities		
Proceeds from short-term borrowings	6,519,896	5,559,680
Repayments of short-term borrowings	(4,739,393)	(7,767,465)
Proceeds from long-term borrowings	3,000,080	6,158,508
Repayments of long-term borrowings	(2,513,095)	(2,938,950)
Proceeds from issuance of bonds	–	200,000
Payments for redemption of bonds	(139,500)	(139,500)
Payments for purchase of treasury stock	(299,998)	–
Proceeds from issuing stock option	3,333	–
Proceeds from exercise of stock options	3,792	1,643
Dividends paid	(76,900)	(77,256)
Other	(3,245)	(3,690)
Cash flow from financing activities	1,754,967	992,966
Effect of exchange rate changes on cash and cash equivalents	18,869	(22,811)
Increase (decrease) in cash and cash equivalents	(538,431)	(477,068)
Balance of cash and cash equivalents at start of year	3,551,882	3,013,451
Balance of cash and cash equivalents at end of period	3,013,451	2,536,383