Summary of Earnings Report for First Half of Year Ending March 31, 2016

October 22, 2015

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: Yes (for institutional investors and analysts)

(Millions yen, rounded down)

1. Consolidated Results for the First Half of the Fiscal Year Ending March 31, 2016 (April 1, 2015 – September 30, 2015)

(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 half, year ending March 31, 2016	7,882	71.2	505	65.2	411	86.2	263	94.1
First half, year ended March 31, 2015	4,603	(30.5)	305	(37.1)	220	(44.9)	135	(43.9)

(Notes) Comprehensive income: 2016 First half 263 million yen (102.4%) 2015 First half 129 million yen ((46.3%))

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
First half, year ending March 31, 2016	1.23	1.22
First half, year ended March 31, 2015	0.62	0.62

(2) Consolidated Financial Conditions

	Total assets	Net Assets	Shareholders' Equity Ratio
	¥ millions	¥ millions	%
First half, year ending March 31, 2016	15,844	5,697	35.9
End of fiscal year ended March 31, 2015	16,681	5,478	32.8

(Notes) Shareholders' equity: 2016 First half 5.691 billion yen End of 2015 5.471 billion yen

2. Dividends Information

	Dividend per Share				
	1Q	Interim	3Q	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2015	—	0.00	—	0.35	0.35
Year ending March 31, 2016	—	0.00			
Year ending March 31, 2016 (forecast)			—	0.35	0.35

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

3. Consolidated Business Plan for the Fiscal Year Ending March 31, 2016

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	
	¥ millions	%	¥ millions	%
Full Year	12,400	15.5	600	11.0

1. Qualitative Information Concerning this Quarterly Earnings Report

(1) Explanation of business results

During the consolidated first half of this fiscal year, there were continuing improvements in corporate earnings and in the hiring and income environments, and corporate demand for capital investments remained strong, backed by the economic and monetary policies of the government and the Bank of Japan. Nevertheless, the economy of Japan remained unable to wipe away the sense of uncertainty due to risks of a downturn caused by stagnating overseas economies, based on factors including concerns about a prolonged slowdown of the Chinese economy, slowing growth among emerging Asian nations, and elements of uncertainty in the European economy.

In the business environment surrounding the A.D.W. Group, due to the rising trend in Tokyo Metropolitan Area land prices, both the rental market and sales market showed strong activity. Continuing good conditions also favored the income property market as well, supported by strong buying demand centered on high net-worth individuals.

In this kind of business environment and based on the Fourth Mid-range Business Plan (fiscal year ended March 31, 2015 – fiscal year ending March 31, 2017), 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 are engaged in various measures for this purpose.

During the first half of this consolidated fiscal year, in accordance with the policies of the above mid-range business plan, we carried out property acquisition activities in Japan and overseas and also actively engaged in sales of income properties. As a result, we achieved a large increase in income compared with the first half of the previous consolidated fiscal year.

Centered on the "Royaltorch" owner’s club that was launched in January 2014, we worked to strengthen our client relation functions, such as by providing more personalized and higher-quality services to meet the needs of the customers (primarily high net-worth individuals) who are the owners of the properties which we sold.

As a result of the above, sales during this consolidated first half year results period were 7.882 billion yen (up 71.2% year-on-year), EBITDA was 532 million yen (up 65.9% year-on-year), operating income was 505 million yen (up 65.2% year-on-year), ordinary income was 411 million yen (up 86.2% year-on-year), and net income attributable to the owner of the parent was 263 million yen (up 94.1% year-on-year).

Beginning from the first quarter of this consolidated fiscal year, we have applied the Accounting Standard for Business Combination (Corporate Accounting Standard No. 21: September 13, 2013) and related standards, and consequently have changed the "Net income" category to "Net income attributable to owner of parent".

An overview of the business results is as shown below.

(Income property sales business)

In this business segment, based on the business plan mentioned above, we further actively engaged in sales of income properties. As a result, we sold a total of 18 properties in Japan and overseas (4 more than during the first half of the previous fiscal year).

In addition, although the buying environment is difficult due to the continuing rise in property prices and other reasons, we are carefully selecting superior properties from those that are available, and acquired 4.762 billion yen of income properties (including both Japan and overseas properties), an increase of 34.4% year-on-year. The average balance of income properties during the first half of this consolidated fiscal year increased to 12.949 billion yen (up 21.0% year-on-year).

As a result of the above, sales were 7.141 billion yen (up 80.1% year-on-year), EBITDA was 774 million yen (up 62.7% year-on-year), and operating income was 773 million yen (up 62.8% year-on-year).

(Stock-type fee business)

In this business segment, we continued to increase our balance of income properties, securing 408 million yen of rental income during the first half of this consolidated fiscal year (up 26.7% year-on-year), increasing the contribution of rental income to profits. Our business of contracting property management for income properties after they are sold remains strong, and the number of income properties under our management is 3,377 (as of September 30, 2015).

On the other hand, there was a temporary increase in expenses associated with this business, due primarily to an increase in

depreciation resulting from the increase in income properties held for long-term sale, and to an increase in personnel expenses resulting from restructuring of the organization which operates the business.
As a result of the above, sales were 813 million yen (up 22.0% year-on-year), EBITDA was 297 million yen (up 13.1% year-on-year), and operating income was 281 million yen (up 9.1% 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: Expenses of A.D.Estate Co., Ltd., the company responsible for the new property construction business, were previously presented under the "(Other)" segment. Beginning from this consolidated fiscal year, these expenses are included in the headquarters expenses.

(2) Forecast for the next fiscal year

Based on the Fourth Mid-Range Business Plan (fiscal year ended March 31, 2015 – fiscal year ending March 31, 2017) 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, 2016).

I. Adding to the balance of income properties
II. Shifting to a stable profit model
III. Achieving both high added-value to owners (customers) and cost reduction through long-term business relationships
IV. Establishing a unique position in the real estate industry

During the first half of this consolidated fiscal year, we recognize that we proceeded at a strong pace relative to the consolidated results plan for this fiscal year. Progress relative to the plan was 63.6% for sales, 56.7% for EBITDA, and 68.5% for ordinary income.
There are no changes as a result of the above to the consolidated results plan for the year ending March 31, 2016 that was announced on March 9, 2015.

Self evaluations, identified issues, and other matters of the A.D.W. Board of Directors in relation to the results plan during the first half of this consolidated fiscal year will be explained at the A.D.W. IR explanatory meeting that is scheduled for November 11, 2015. The materials used at this explanation meeting will be posted on the same date on our company's HP (http://www.re-adworks.com).

(Consolidated results plan for the year ending March 31, 2016)

(Units: Millions yen)

	Year ended March 31, 2015 (results)	Year ending March 31, 2016 (plan)
Consolidated sales	10,735	12,400
Consolidated EBITDA	791	935
Consolidated ordinary income	540	600
Consolidated ROE (end of year)	6.1%	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, 2015)	Current consolidated first half (April 1, 2015 – Sept. 30, 2015)
Assets		
Current assets		
Cash and savings	3,081,935	2,801,299
Accounts receivable	73,259	67,939
Income properties held for sale	10,975,508	10,365,265
Real estate for sale in process	77,017	184,495
Other	300,036	268,778
Allowance for doubtful accounts	(2,223)	(941)
Total current assets	14,505,534	13,686,836
Fixed assets		
Tangible fixed assets		
Land	1,239,470	1,239,617
Other(net)	715,499	703,932
Total tangible fixed assets	1,954,970	1,943,549
Intangible fixed assets	61,095	60,708
Investments and other assets	159,669	153,142
Total fixed assets	2,175,735	2,157,401
Total assets	16,681,270	15,844,238
Liabilities		
Current liabilities		
Accounts payable	450,352	333,209
Short-term loans payable	3,921,703	1,681,818
Current portion of bonds	139,500	129,500
Current portion of long-term loans payable	999,369	1,099,465
Corporate tax payable	157,174	145,944
Reserve	17,463	144,049
Other	864,367	791,051
Total current liabilities	6,549,930	4,325,037
Fixed liabilities		
Corporate bonds	967,250	902,500
Long-term loans payable	3,601,167	4,835,916
Other	84,018	83,040
Total fixed liabilities	4,652,435	5,821,457
Total liabilities	11,202,366	10,146,494

(Units: Thousands yen)

	Previous consolidated fiscal year (March 31, 2015)	Current consolidated first half (April 1, 2015 – Sept. 30, 2015)
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	2,293,647
Treasury stock	(457,977)	(423,392)
Total shareholders' equity	5,473,834	5,694,482
Accumulated other comprehensive income		
Foreign currency translation adjustments	3,557	2,194
Deferred gains (losses) on hedges	(6,318)	(5,310)
Total accumulated other comprehensive income	(2,761)	(3,115)
Subscription rights to shares	7,830	6,376
Total net assets	5,478,903	5,697,744
Total liabilities and net assets	16,681,270	15,844,238

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

Consolidated Profit and Loss Statement

Consolidated first half

(Units: Thousands yen)

	Previous consolidated first half (April 1, 2014 – Sept. 30, 2014)	Current consolidated first half (April 1, 2015 – Sept. 30, 2015)
Sales	4,603,146	7,882,625
Cost of sales	3,501,791	6,276,059
Gross profit on sales	1,101,354	1,606,566
Sales, general, and administrative expenses	795,459	1,101,162
Operating income	305,895	505,403
Non-operating income		
Interest and dividends income	381	265
Interest on refund	239	14
Subsidy income	-	942
Foreign exchange profit	447	-
Other	-	45
Total non-operating income	1,068	1,268
Non-operating expenses		
Interest paid	71,328	81,189
Other	14,792	14,255
Total non-operating expenses	86,120	95,445
Ordinary income	220,843	411,226
Extraordinary losses		
Loss on disposal of fixed assets	66	-
Total extraordinary losses	66	-
Net income before taxes	220,776	411,226
Income taxes – current	85,017	147,786
Total income taxes	85,017	147,786
Net income	135,758	263,440
Net income attributable to owners of parent	135,758	263,440

Consolidated Comprehensive Income Statement

Consolidated first half

(Units: Thousands yen)

	Previous consolidated first half (April 1, 2014 – Sept. 30, 2014)	Current consolidated first half (April 1, 2015 – Sept. 30, 2015)
Net income before minority interests	135,758	263,440
Other comprehensive income		
Foreign currency translation adjustments	1,326	(1,362)
Deferred gains (losses) on hedges	(7,098)	1,007
Total other comprehensive income	(5,771)	(354)
Comprehensive income	129,987	263,085
(attributable to)		
Owners of the parent company	129,987	263,085
Minority interests	—	—

(3) Consolidated Statements of Cash Flows

(Units: Thousands yen)

	Previous consolidated first half (April 1, 2014 – Sept. 30, 2014)	Current consolidated first half (April 1, 2015 – Sept. 30, 2015)
Cash flows from operating activities		
Net income before taxes	220,776	411,226
Depreciation cost	14,175	26,716
Increase (decrease) in allowances	22,698	125,303
Interest and dividends income	(381)	(265)
Interest paid	71,328	81,189
Loss on retirement of non-current assets	66	—
Decrease (increase) in notes and accounts receivable – trade	(88)	5,218
Increase (decrease) in notes and accounts payable – trade	(190,968)	(116,997)
Decrease (increase) in inventory assets	(1,014,144)	493,850
Other	(4,358)	12,729
Subtotal	(880,896)	1,038,971
Interest and dividend income	381	265
Interest paid	(65,598)	(78,784)
Income taxes refunded (paid)	(73,686)	(163,372)
Cash flows from operating activities	(1,019,800)	797,081
Cash flow from investing activities		
Payments for purchase of tangible fixed assets	(35,680)	(10,554)
Payments for purchase of intangible fixed assets	(5,370)	(14,001)
Payments for refund of deposits	(936)	—
Other	—	583
Cash flow from investing activities	(41,986)	(23,971)
Cash flow from financing activities		
Proceeds from short-term borrowings	3,510,000	1,559,000
Repayments of short-term borrowings	(2,816,450)	(3,798,885)
Proceeds from long-term borrowings	908,763	2,614,000
Repayments of long-term borrowings	(576,396)	(1,278,852)
Payments for redemption of bonds	(64,750)	(74,750)
Payments for purchase of treasury stock	(299,998)	—
Proceeds from sale of subscription rights to shares	3,333	—
Proceeds from exercise of stock options	3,292	1,643
Dividends paid	(76,900)	(77,323)
Other	(3,245)	(2,510)
Cash flow from financing activities	587,647	(1,057,677)
Effect of exchange rate changes on cash and cash equivalents	12,598	1,421
Increase (decrease) in cash and cash equivalents	(461,541)	(283,146)
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	3,090,341	2,730,305