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

October 22, 2018

Name of listed company: A.D.Works. Co., Ltd. Listed stock exchange: Tokyo Stock Exchange
Code: 3250 URL http://www.re-adworks.com/
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Scheduled date of filing November 8, 2018 Scheduled date of dividend payment
Additional material of financial result : Yes
Result meeting : Yes (for institutional investors and analysts)

(Million yen, rounded down)

1. Consolidated Results for the First half of the Fiscal Year Ending March 31, 2019 (April 1, 2018–September 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 half, year ending March 31, 2019	11,406	(6.4)	1,646	118.5	1,479	140.1	615	60.8
First half, year ended March 31, 2018	12,189	28.9	753	46.5	616	75.9	383	38.1

(Notes) Comprehensive Income: 2019 2Q 890 million yen (120.3%) 2018 2Q 404 million yen (111.6 %)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
First half, year ending March 31, 2019	1.92	1.91
First half, year ended March 31, 2008 (Note)	1.20	1.20

(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 half, year ending March 31, 2019	32.107	11.016	34.3
End of fiscal year ended March 31, 2018	30,801	10,152	32.9

(Notes) Shareholders' equity: 2019 2Q 11,004 million yen End of 2018 10,148 million yen

2. Dividends Information

	Dividend per Share				
	1Q	Interim	3Q	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	—	1.65	—	0.35	2.00
Fiscal year ending March 31, 2019	—	0.00			
Fiscal year ending March 31, 2019 (forecast)			—	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 half of this consolidated fiscal year (hereafter, "the first half"), the Japanese economy continued to make a gradual recovery on the back of restored personal spending and an increase in capital investment. In addition, in the US, where the Group's overseas base is located, the economy continues to expand, supported by strong personal spending and capital investments.

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 secondhand condominiums 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 half are shown in the table below.

(Units: Million yen)

	Fiscal year ending March 31, 2019 (full-year plan)		First half, year ended March 31, 2018 (results)		First half, year ending March 31, 2019 (results)			
	Amount	Ratio	Amount	Ratio	Amount	Ratio	YoY	Full-year plan progress
Sales	24,000	100.0%	12,189	100.0%	11,406	100.0%	-6.4%	47.5%
(Property sales)	—	—	(11,070)	(90.8%)	(10,018)	(87.8%)	(-9.5%)	—
(Stock)	—	—	(1,301)	(10.7%)	(1,628)	(14.3%)	(+25.2%)	—
(Internal sales)	—	—	(-182)	(-1.5%)	(-240)	(-2.1%)	—	—
EBITDA	1,600	6.7%	812	6.7%	1,750	15.3%	+115.5%	109.4%
Ordinary income	1,000	4.2%	616	5.1%	1,479	13.0%	+140.1%	148.0%
Pre-tax income	1,000	4.2%	616	5.1%	722	6.3%	+17.2%	72.2%
Net income	660	2.8%	383	3.1%	615	5.4%	+60.8%	93.3%

Note 1: "Property sales," "Stock," "Pre-tax income," and "Net income" are the abbreviations for "Income property sales business," "Stock-type fee business," "Net income before taxes and other adjustments," and "Net income 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.

On July 31, 2018, the Group received a notice of correction from the Tokyo Regional Taxation Bureau requiring that the Group pay additional consumption taxes and an additional charge. As a result, the Group decided to post a 757 million yen extraordinary loss in the first quarter of the consolidated fiscal year (hereafter, "the first quarter") to cover the additional consumption taxes for previous years. On September 13, 2018, the Group requested that the director of the National Tax Tribunal grant a review to expunge the penalty taxes. The Group is monitoring the progress of this request for review while at the same time making preparations to file a lawsuit.

On receiving this notice, the Group took marketing measures to utilize the flexibility of the income properties it holds and expand its sales lineup to achieve its consolidated earnings forecasts for the fiscal year ending in March 2019. As a result, the Group's performance improved from 121 million in consolidated ordinary income and a 306 million yen net loss attributable to owners of parent in the first quarter to 1,479 million yen in consolidated ordinary income (achieving 148.0% of the full-year earnings forecast) and a 615 million yen net income attributable to owners of parent (93.3% of the full-year earnings forecast) in the first half.

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 10,018 million yen, EBITDA was 1,795 million yen, and operating income was 1,792 million yen. As a result of the aforementioned sales measures and other efforts, the profit margin rose and income increased significantly in the first half. We sold 15 properties in Japan and 12 properties in the United States.

When acquiring income properties in Japan as real estate prices continue to rise, we have carefully focused on the profitability of each property. In contrast, in the US, we have aggressively acquired properties due to strong demand for our properties. As a result, we completed acquisitions of 18 properties in Japan and 11 properties in the United States, recording a total acquisition amount of 7,004 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 23,116 million yen (Note 2), which was 740 million yen higher than the balance at the end of the previous fiscal year.

(Stock-type fee business)

Sales were 1,628 million yen, EBITDA was 545 million yen, and operating income was 479 million yen.

The balance of income properties during the fiscal year stood at 17,254 million yen in same period in the previous fiscal year, and increased to 23,004 million yen in the second quarters of this fiscal year. In our business of contracting property management for income properties after they are sold, at the end of the second quarter, 4,705 properties were under management (4,342 at the end of the previous fiscal year). Due to these factors, rental income and property management income increased, reinforcing the stable revenue base.

Note 1. 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.

Note 2. The 23,116 million yen in the balance of income properties does not include the reserves (46 million yen) set aside as a result of estimates for the provisional payment of consumption taxes posted on receipt of the correction notice for past-year taxes from the Tokyo Regional Taxation Bureau.

(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: Million 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: Thousand yen)

	Previous consolidated first half (year ended March 31, 2018)	Current consolidated first half (September 30, 2018)
Assets		
Current assets		
Cash and deposits	7,169,631	6,998,909
Accounts receivable - trade	117,013	84,527
Real estate for sale	21,899,672	22,657,934
Real estate for sale in process	476,536	504,892
Other	489,131	1,095,719
Allowance for doubtful accounts	(116)	(729)
Total current assets	30,151,868	31,341,254
Non-current assets		
Property, plant and equipment		
Tangible assets	77,562	62,704
Intangible assets	65,957	56,438
Investments and other assets	438,493	593,862
Total non-current assets	582,017	713,005
Deferred assets		
Share issuance cost	67,518	53,271
Total deferred assets	67,518	53,271
Total assets	30,801,404	32,107,531
Liabilities		
Current liabilities		
Accounts payable - trade	711,085	518,297
Short-term loans payable	2,357,500	1,980,400
Current portion of bonds	958,250	186,000
Current portion of long-term loans payable	2,579,349	3,066,606
Income taxes payable	268,532	186,725
Provision	—	91,559
Other	1,490,764	2,100,814
Total current liabilities	8,365,483	8,130,404
Non-current liabilities		
Bonds payable	555,000	480,000
Long-term loans payable	11,683,769	12,439,265
Other	45,071	41,734
Total non-current liabilities	12,283,841	12,961,000
Total liabilities	20,649,324	21,091,404
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	3,351,138
Treasury shares	(211,974)	(133,959)
Total shareholders’ equity	10,361,520	10,942,909
Accumulated other comprehensive income		
Net unrealized gain on securities	(4,403)	370
Foreign currency translation adjustments	(201,394)	67,217
Deferred gains (losses) on hedges	(7,184)	(5,577)
Total accumulated other comprehensive income	(212,981)	62,010
Subscription rights to shares	3,540	11,207
Total net assets	10,152,079	11,016,126
Total liabilities and net assets	30,801,404	32,107,531

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

Consolidated Profit and Loss Statement

(Units: Thousand yen)

	Previous consolidated fiscal year (April 1, 2017－September 30, 2017)	Current consolidated first half (April 1, 2018－September 30, 2018)
Net sales	12,189,015	11,406,892
Cost of sales	10,067,880	8,320,319
Gross profit	2,121,135	3,086,572
Selling, general and administrative expenses	1,367,516	1,439,895
Operating income	753,618	1,646,677
Non-operating income		
Interest and dividend income	56	1,560
Insurance income	795	1,710
Subsidy income	—	1,552
Other	34	1,181
Total non-operating income	886	6,004
Non-operating expenses		
Interest expenses	109,494	125,357
Borrowing fee	9,001	25,926
Other	19,615	21,530
Total non-operating expenses	138,110	172,814
Ordinary income	616,394	1,479,867
Extraordinary loss		
Prior year consumption taxes	—	757,465
Loss on disposal of fixed assets	—	228
Total extraordinary loss	—	757,693
Net income before taxes	616,394	722,173
Income taxes - current	233,357	106,335
Total income taxes	233,357	106,335
Net income	383,036	615,838
Net income attributable to owners of parent	383,036	615,838

Consolidated Profit and Loss Statement

(Units: Thousand yen)

	Previous consolidated fiscal year (April 1, 2017－September 30, 2017)	Current consolidated first half (April 1, 2018－September 30, 2018)
Net income	383,036	615,838
Other comprehensive income		
Net unrealized gain on securities	535	4,773
Foreign currency translation adjustment	20,298	268,611
Deferred gains (losses) on hedges	450	1,606
Total other comprehensive income	21,285	274,991
Comprehensive income	404,322	890,829
(attributable to)		
Comprehensive income attributable to owners of parent	404,322	890,829
Comprehensive income attributable to non-controlling interests	—	—