Summary of Earnings Report for
First Half of Year Ending March 31, 2015

October 31, 2014

Name of listed company	A.D.Works, Ltd.	Listed stock exchange	Tokyo Stock Exchange
Code	3250	URL	http://www.re-adworks.com/
Representative:	Hideo Tanaka, President and CEO		
Contact:	Katsutoshi Hosoya, Senior Managing Director and CFO	TEL: +81-(0) 3-4500-4200	
Scheduled date of filing Financial Reports	November 12, 2014	Scheduled date of dividend payment:	—
Additional material of financial result:	Yes		
Result meeting:	Yes (for institutional investors and analysts)		

(Millions of Yen, rounded down)

1. Consolidated results for the first half of the fiscal year ending March 31, 2015 (April 1, 2014 – September 30, 2014)

(1) Consolidated business results (cumulative) (%: Year-on-year comparison)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
First half, year ending March 31, 2015	4,603	(30.5)	305	(37.1)	220	(44.9)	135	(43.9)
First half, year ended March 31, 2014	6,620	95.9	486	182.3	400	291.1	241	305.2

(Notes) Comprehensive income: 2015 first half 129 million yen (-46.3%), 2014 first half 241 million yen (305.2%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
First half, year ending March 31, 2015	0.62	0.62
First half, year ended March 31, 2014	2.31	2.28

Note: On October 1, 2013 we executed a 1:100 stock split of ordinary stock. The figures for net income per share and diluted net income per share were calculated assuming that this stock split took place at the start of the previous consolidated fiscal year.

(2) Consolidated financial conditions

	Total Assets	Net Assets	Shareholders' equity ratio
	¥ millions	¥ millions	%
First half, year ending March 31, 2015	14,918	5,254	35.2
End of fiscal year ended March 31, 2014	14,274	5,496	38.4

(Notes) Shareholders' equity: 2015 first half 5.245 billion yen End of 2014 5.487 billion yen

2. Dividends Information

	Dividend per Share				
	1Q	Interim	3Q	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2014	—	0.00	—	0.35	0.35
Year ending March 31, 2015	—	0.00			
Year ending March 31, 2015 (forecast)			—	0.35	0.35

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

3. Consolidated Business Plan for Fiscal Year Ending March 31, 2015

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	
	¥ million	%	¥ million	%
Full Year	12,700	10.1	500	11.0

(Notes) This business plan was announced as "Notice Concerning Formulation of the Fourth Mid-Range Business Plan (Year Ending March 31, 2015 – Year Ending March 31, 2017)," which was announced on March 31, 2014.

1. Qualitative Information Concerning this Quarterly Earnings Report

(1) Explanation of business results

During the first half of this consolidated fiscal year, the economy of Japan continued on a slow path to recovery, with a continuing weaker yen and rising stock prices that are due to the effects of government economic policies and Bank of Japan monetary policies.

In the real estate market that surrounds the A.D.W. Group, as the negative view of the real estate market conditions continues to recede, the recovery in both the rental market and sales market continues to gain strength. In the market for revenue-generating real estate, there continues to be strong buying demand centered on high net-worth individuals, and real estate prices are continuing to rise.

In this kind of business environment and based on the Fourth Mid-range Business Plan (fiscal year ending March 31, 2015 – fiscal year ending March 31, 2017) that was announced on March 31, 2014, 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 have begun new measures aimed at achieving further growth.

During the first half of this consolidated fiscal year, both sales and acquisition of revenue-generating real estate were carried out as planned in accordance with the policies of the above mid-range business plan. The progress with regards to the targets of the full-year consolidated business plan is 36.2% for sales, 40.8% for EBITDA, and 44.2% for ordinary income. However compared with the first half of the previous fiscal year, when sales were particularly strong, the sales and income results for this first half year were lower.

We are also make effective use of the knowledge and expertise that we have gained through our revenue-generating real estate sales business in Japan, and began full-scale operation of a revenue-generating real estate business in the United States from this year. During the first half of this consolidated fiscal year, we completed the sale of the first revenue-generating real estate property which we had acquired in California.

Aiming for the creation of a closed market, we also worked to strengthen relationships with the high net-worth individual customers who are the owners of the properties sold by A.D.Works, including operation of the owners' club “torch” that was launched in January 2014. We also worked for further cooperation with external partners.

As a result of the above, sales during this consolidated first half year results period were 4.603 billion yen (down 30.5% year-on-year), EBITDA was 320 million yen (down 35.5% year-on-year), operating income was 305 million yen (down 37.1% year-on-year), ordinary income was 220 million yen (down 44.9% year-on-year), and net income was 135 million yen (down 43.9% year-on-year).

An overview of each business segment is as follows.

(Revenue-generating real estate sales business)

In this segment, based on the business plan announced at the start of the year, we continued to sell revenue-generating real estate while also focusing on property acquisition activities. As a result, during the first half of this consolidated fiscal year, we sold a total of 14 revenue-generating real estate properties in Japan and the United States (decreased 3 properties compared to the same period of the previous year).

At the same time, during the first half of this consolidated fiscal year, we purchased 3.544 billion yen of properties. As a result, by the end of September 2014, we had increased our average balance of revenue-generating real estate to 10.699 billion yen (up 96.5% year-on-year).

As a result of the above, sales in this business were 3.964 billion yen (down 29.2% year-on-year), EBITDA was 475 million yen (down 30.5% year-on-year), and operating income was 475 million yen (down 30.6% year-on-year).

(Stock-type fee business)

In this segment, we focused our efforts on increasing rental revenue by expanding the balance of revenue-generating real estate in order to stabilize income. We also worked to provide a range of other services, including contracted property management that continues after a property is sold.

As a result, during the first half of this consolidated fiscal year, rental revenue increased steadily to 322 million yen (up 70.8% year-on-year), and the number of revenue-generating properties which we manage after sale was 3,096 (as of September 30, 2014).

As a result of the above, sales in this business were 666 million yen (up 44.5% year-on-year), EBITDA was 262 million yen (up 85.4% year-on-year), and operating income was 258 million yen (up 88.3% year-on-year).

(Other)

This business segment contains the general residential real estate business (new houses and secondhand houses), which had been contracting since the previous fiscal year. We completed the sales of all remaining such new houses in our inventory during 1Q of this consolidated fiscal year.

As a result of the above, sales in this business were 42 million yen, and we recorded an operating loss of 2 million yen.

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) Explanation of the financial conditions

(Assets)

Total assets at the end of the first half of this consolidated fiscal year increased by 643 million yen from the end of the previous consolidated fiscal year to reach 14.918 billion yen. This was primarily due to an increase in inventory assets of 1.057 billion yen resulting from efforts to expand our balance of revenue-generating real estate.

(Liabilities)

Liabilities at the end of the first half of this consolidated fiscal year increased by 885 million yen from the end of the previous consolidated fiscal year to reach 9.664 billion yen. This was primarily due to an increase in interest-bearing liabilities of 972 million yen resulting from causes including borrowing for the purpose of expanding our balance of revenue-generating real estate.

(Net assets)

Net assets at the end of the first half of this consolidated fiscal year decreased by 241 million yen from the end of the previous consolidated fiscal year to reach 5.254 billion yen. This was primarily due to the acquisition of 299 million yen of treasury stock for the trust-based director stock compensation plan and to a surplus dividend payment of 77 million yen.

(3) Explanation of consolidated results forecasts and other future forecasts

Beginning from this fiscal year, the A.D.W. Group is focusing on the following 4 measures which are based on the basic policies of the Fourth Mid-Range Business Plan described in 1 (1).

[1] Add to the balance of revenue-generating real estate.

[2] Shift to a stable profit model.

[3] Achieve both high added-value to owners (customers) and cost reduction.

[4] Establish a unique position in the real estate industry.

Steady progress was made during this consolidated 2Q, and there are no changes to the consolidated results plan for the year ending March 31, 2015 that was announced on March 31, 2014.

(Consolidated results plan for the year ending March 31, 2015)

(Units: Millions yen)

	Year ended March 31, 2014 (actual)	Year ending March 31, 2015 (plan)
Consolidated sales	11,537	12,700
Consolidated EBITDA	813	787
Consolidated ordinary income	450	500
Consolidated ROE (fiscal year-end)	4.9%	5.3%

3. Consolidated Financial Statements

(1) Consolidated balance sheets

(Units: Thousands yen)

	Previous consolidated fiscal year (March 31, 2014)	Consolidated first half of current fiscal year (September 30, 2014)
Assets		
Current assets		
Cash and savings	3,617,746	3,159,450
Accounts receivable	47,914	48,357
Revenue-generating real estate held for sale	8,939,011	9,853,168
Real estate for sale in process	146,319	289,560
Other	232,277	232,755
Allowance for doubtful accounts	(1,511)	(1,958)
Total current assets	12,981,757	13,581,335
Fixed assets		
Tangible fixed assets		
Land	869,853	869,853
Other (net)	259,892	287,329
Total tangible fixed assets	1,129,745	1,157,182
Intangible fixed assets	19,528	32,808
Investments and other assets	143,926	146,847
Total fixed assets	1,293,201	1,336,838
Total assets	14,274,958	14,918,173
Liabilities		
Current liabilities		
Accounts payable	411,976	221,836
Short-term loans payable	2,141,200	2,834,750
Current portion of bonds	139,500	149,500
Current portion of long-term loans payable	406,579	1,000,110
Corporate tax payable	79,552	91,213
Reserves	14,966	37,218
Other	751,784	809,832
Total current liabilities	3,945,558	5,144,461
Fixed liabilities		
Corporate bonds	1,106,750	1,032,000
Long-term loans payable	3,689,211	3,439,222
Other	37,380	48,409
Total fixed liabilities	4,833,341	4,519,632
Total liabilities	8,778,899	9,664,093
Net assets		
Shareholders' equity		
Capital stock	1,936,512	1,937,744
Capital surplus	1,883,142	1,886,041
Retained earnings	1,852,063	1,909,990
Treasury stock	(184,273)	(482,105)
Total shareholders' equity	5,487,444	5,251,670
Accumulated other comprehensive income		
Foreign currency translation adjustments	(427)	899

(Units: Thousands yen)

	Previous consolidated fiscal year (March 31, 2014)	Consolidated first half of current fiscal year (September 30, 2014)
Deferred gains (losses) on hedges	-	(7,098)
Total accumulated other comprehensive income	(427)	(6,199)
Subscription rights to shares	9,042	8,608
Total net assets	5,496,058	5,254,079
Total liabilities and net assets	14,274,958	14,918,173

(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, 2013 – Sept. 30, 2013)	Current consolidated first half (April 1, 2014 – Sept. 30, 2014)
Sales	6,620,976	4,603,146
Cost of sales	5,453,915	3,501,791
Gross profit on sales	1,167,061	1,101,354
Sales, general, and administrative expenses	680,913	795,459
Operating income	486,148	305,895
Non-operating income		
Interest and dividends income	274	381
Interest on refund	859	239
Subsidy income	636	-
Foreign exchange profit	-	447
Other	103	-
Total non-operating income	1,873	1,068
Non-operating expenses		
Interest paid	52,098	71,328
Bond issuance cost	19,065	-
Other	16,280	14,792
Total non-operating expenses	87,444	86,120
Ordinary income	400,576	220,843
Extraordinary losses		
Loss on retirement on non-current assets	-	66
Total extraordinary losses	-	66
Net income before taxes	400,576	220,776
Income taxes – current	158,652	85,017
Total income taxes	158,652	85,017
Net income before minority interests	241,924	135,758
Net income	241,924	135,758

Consolidated Comprehensive Income Statement

Consolidated first half

(Units: Thousands yen)

	Previous consolidated first half (April 1, 2013 – Sept. 30, 2013)	Current consolidated first half (April 1, 2014 – Sept. 30, 2014)
Net income before minority interests	241,924	135,758
Other comprehensive income		
Foreign currency translation adjustments	0	1,326
Deferred gains (losses) on hedges	–	(7,098)
Total other comprehensive income	0	(5,771)
Comprehensive income	241,924	129,987
(attributable to)		
Owners of the parent company	241,924	129,987
Minority interests	–	–

(3) Consolidated Statements of Cash Flows

(Units: Thousands yen)

	Previous consolidated first half (April 1, 2013 – Sept. 30, 2013)	Current consolidated first half (April 1, 2014 – Sept. 30, 2014)
Cash flows from operating activities		
Net income before taxes	400,576	220,776
Depreciation cost	10,767	14,175
Increase (decrease) in allowances	(24,830)	22,698
Interest and dividends income	(274)	(381)
Interest paid	52,098	71,328
Bond issuance cost	19,065	—
Loss on retirement of non-current assets	—	66
Decrease (increase) in notes and accounts receivable – trade	543	(88)
Increase (decrease) in notes and accounts payable – trade	19,598	(190,968)
Decrease (increase) in inventory assets	(468,387)	(1,014,144)
Other	53,676	(4,358)
Subtotal	62,834	(880,896)
Interest and dividend income	274	381
Interest paid	(49,420)	(65,598)
Income taxes refunded (paid)	(151,943)	(73,686)
Cash flows from operating activities	(138,255)	(1,019,800)
Cash flow from investing activities		
Payments for purchase of tangible fixed assets	(10,610)	(35,680)
Payments for purchase of intangible fixed assets	(378)	(5,370)
Payments for refund of deposits	(2,785)	(936)
Cash flow from investing activities	(13,773)	(41,986)
Cash flow from financing activities		
Proceeds from short-term borrowings	2,684,000	3,510,000
Repayments of short-term borrowings	(2,532,950)	(2,816,450)
Proceeds from long-term borrowings	1,250,000	908,763
Repayments of long-term borrowings	(1,786,822)	(576,396)
Proceeds from issuance of bonds	930,934	—
Payments for redemption of bonds	(30,000)	(64,750)
Payments for purchase of treasury stock	(166,800)	(299,998)
Proceeds from sale of subscription rights to shares	5,040	3,333
Proceeds from exercise of stock options	17,996	3,292
Proceeds from issuance of stock resulting from exercise of subscription rights to shares	15,737	—
Dividends paid	(51,060)	(76,900)
Other	(39,681)	(3,245)
Cash flow from financing activities	296,394	587,647
Effect of exchange rate changes on cash and cash equivalents	(189)	12,598
Increase (decrease) in cash and cash equivalents	144,174	(461,541)
Balance of cash and cash equivalents at start of year	2,213,812	3,551,882
Balance of cash and cash equivalents at end of period	2,357,987	3,090,341