

Summary of Earnings Report for Second Quarter of Year Ending December 31, 2024

August 8, 2024

Name of listed company: A.D.Works Group Co., Ltd. Listed stock exchange: Tokyo Stock Exchange
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 Additional material of financial results: Yes
 Results meeting: Yes (For analysts and institutional investors)

(Millions of yen, rounded down)

1. Consolidated Results for the First Half of the Fiscal Year Ending December 31, 2024 (January 1, 2024– June 30, 2024)

(1) Consolidated business results (cumulative)

(%: Year-on-year comparison)

	Net Sales		Operating Income		Net income before income taxes		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First half, Fiscal year ending December 31, 2024	20,814	8.7	1,820	32.9	1,467	14.3	915	5.9
First half, Fiscal year ended December 31, 2023	19,145	33.4	1,369	70.6	1,284	103.9	864	124.9

(Notes) Comprehensive Income: 2024 2Q 1,472 million yen 34.3% 2023 2Q 1,096 million yen 3.1%

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
First half, year ending December 31, 2024	19.01	18.74
First half, year ended December 31, 2023	18.22	18.14

(2) Consolidated financial conditions

	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
Second quarter, year ending December 31, 2024	64,565	18,462	28.5
Fiscal year ended December 31, 2023	58,854	17,166	29.1

(Notes) Equity: 2024 2Q 18,406 million yen 2023 17,106 million yen

2. Dividend Information

	Dividend per Share				
	1Q	Interim	3Q	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2023	—	3.50	—	4.50	8.00
Fiscal year ending December 31, 2024	—	4.50			
Fiscal year ending December 31, 2024 (forecast)			—	4.50	9.00

(Notes). Correction to most recently announced dividend forecast: None

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.

3. Consolidated Business Plan for Fiscal Year Ending December 31, 2024 (January 1, 2024–December 31, 2024)

A.D.Works 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 is different from the forecasts and predictions.

Note that for projections of business results, the outlook at the end of each quarter will be updated as appropriate and disclosed as a forecast based on information that is highly accurate for the Group overall and deemed reasonable at that time.

(%: comparison with the previous period)

	Net Sales		Operating Income		Net income before income taxes		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Full year	47,000	13.7	3,000	22.9	2,300	11.3	1,565	10.2

(Note) Correction to most recently announced results forecast: None

* Notes

(1) Significant changes in the scope of consolidation during the consolidated fiscal year under review : None

New: —Company (name of company)—, Excluded: —Company (name of company)—

(2) Adoption of accounting treatment unique to the preparation of quarterly consolidated financial statements : Yes

(3) Changes in accounting policies and changes or restatement of accounting estimates

1. Changes in accounting policies due to the revision of accounting standards, etc. : No

2. Changes in accounting policies other than 1. : No

3. Changes in accounting estimates : No

4. Restatement : No

(4) Number of issued shares (common shares)

1. Number of outstanding shares (including treasury stock) at end of period

Q2 FY2024	49,585,764 shares	Fiscal year ended on December 31, 2023	49,455,764 shares
Q2 FY2024	1,342,660 shares	Fiscal year ended on December 31, 2023	1,488,986 shares
Q2 FY2024	48,158,771 shares	Q2 FY2023	47,442,531 shares

2. Number of treasury stock at end of period

3. Average number of shares during period (cumulative period)

(Note) The Company has a Director Stock Compensation Trust and the Company shares held by the trust are included in the number of treasury stock.

* This quarterly financial statement does not need to undergo a quarterly review by a certified public accountant or an audit corporation.

* Explanation about the proper use of results forecasts, and additional information

The Company makes no guarantees with respect to the achievement of its results forecasts or forward-looking statements included in these materials. Actual results may differ significantly from the forecasts in the document, depending on various factors.

[Attached Materials]

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1. Qualitative Information Concerning Quarterly Results

(1) Description of business results

In the first half of the consolidated fiscal year under review, the Japanese economy showed signs of a gradual recovery amid improvement in the employment and income environment.

The urban income property market, which is the Group's core area of business, continues to benefit from high demand for investments in the income property market, with no changes in market trends even after the Bank of Japan lifted its negative interest rate policy.

In Los Angeles, where the Group has an office, demand in the income property market continued to be curbed by the harsh financing environment due to stubbornly high policy rates.

Amid this business environment, on February 8, 2024, the Group announced its Second Medium-Term Management Plan (Fiscal year ending December 31, 2024, to December 31, 2026). Through this plan, the aim is to continuously achieve double-digit growth in earnings per share to counter our low stock value (less than 1x P/B ratio), and in turn meet the expectations of our shareholders.

To do so, in the second quarter of the fiscal year under review, we sought to ensure stable income by strengthening our acquisition, commercialization, and sale of real estate both in Japan and overseas, and developing non-asset businesses.

As a result, in the first half of the fiscal year under review, the Group's net sales totaled 20,814 million yen (44.3% of the full-year business plan), operating income was 1,820 million yen (60.7% of plan), income before taxes was 1,467 million yen (63.8% of plan), and net income attributable to owners of parent was 915 million yen (58.5% of plan).

Earnings results for the first half of the consolidated fiscal year under review are shown in the table below.

(Unit: million yen)

	Fiscal year ending December 31, 2024 (Full-year plan)		First half, year ended December 31, 2023 (Results)		First half, year ending December 31, 2024 (Results)			
	Amount	Net sales ratio	Amount	Net sales ratio	Amount	Net sales ratio	YoY	Percentage of full- year plan achieved
Net sales	47,000	100.0%	19,145	100.0%	20,814	100.0%	108.7%	44.3%
(Property sales)	—	—	(16,297)	(85.1%)	(18,113)	(87.0%)	(111.1%)	—
(Stock)	—	—	(3,030)	(15.8%)	(2,954)	(14.2%)	(97.5%)	—
(Internal sales)	—	—	(-182)	(-1.0%)	(-253)	(-1.2%)	—	—
Operating income	3,000	6.4%	1,369	7.2%	1,820	8.7%	132.9%	60.7%
Net income before income taxes	2,300	4.9%	1,284	6.7%	1,467	7.1%	114.3%	63.8%
Net income	1,565	3.3%	864	4.5%	915	4.4%	105.9%	58.5%

Note: "Property sales," "stock," "net income before taxes," and "net income" are the respective abbreviations of "income property sales business," "stock-type fee business," "net income before income taxes," and "net income attributable to owners of parent."

A summary of the segment results is as follows. Please note that the Group considers operating income to be segment income.

(Income property sales business)

Net sales were 18,113 million yen and operating income was 2,179 million yen.

The income property sales business segment accounts for more than 80% of the Group's consolidated net sales. The business acquires income property, which is a key source of revenue, having carefully examined property value based on its product planning capacity.

In the brisk domestic market, both acquisitions and sales progressed strongly. Sales of small-lot real estate products performed especially well, with ARISTO Hiroo (total sales: 40 billion yen) selling out, and as a result net sales are steadily growing.

Overseas, we are carefully moving forward with acquisition and sale activities with an eye on market trends.

In the first half, acquisitions and sales in Japan and overseas were as follows.

(Unit: million yen)

	Acquisitions		Revenue from sales	
	Q2 FY2023	Q2 FY2024	Q2 FY2023	Q2 FY2024
Japan	14,792	16,922	15,586	17,519
Overseas	630	561	706	397
Total	15,423	17,483	16,293	17,916

(Stock-type fee business)

Net sales were 2,954 million yen and operating income was 553 million yen.

The stock-type fee business is an important segment that maintains the stability of the Group's results. The main source of revenue is rental revenue from income properties held by the Group, as well as property management revenue from A.D. Partners Co., Ltd. and ADW Management USA, Inc., and construction revenue from Sumikawa ADD Co., Ltd.

Thanks to strong acquisition activities, the total balance of income properties rose from 45,052 million yen at the end of the second quarter of the previous fiscal year to 50,364 million yen at the end of this second quarter. Elsewhere, although at 871 million yen rental revenue in the second quarter of the fiscal year under review decreased year on year due to real estate occupancy rates and other factors, moving forward, we anticipate that it will increase as occupancy rates improve in line with increasing commercialization.

A breakdown of revenue in the stock-type fee business in the second quarter is as follows.

(Unit: million yen)

	Q2 FY2023	Q2 FY2024	YoY
Rental revenue	914	871	95.3%
Other revenue (Property management, construction, etc.)	2,115	2,082	98.4%
Total	3,030	2,954	97.5%

Note 1: The operating income for each segment is an amount before deduction of expenses not allocated to any segment, such as corporate expenses and operating expenses from intersegment sales or transfers. Therefore, the total operating income for the segments does not match consolidated operating income.

- 2: In the "stock-type fee business," we position items such as rent from income properties we held, and fee income from after-sales property management contracts for income properties as "stock-type," while fees for interior decoration work and repair work, and brokerage income derived from customer relations are classified as "flow-type."

(2) Description of financial position

In this first half, as a result of acquiring income properties, the balance of income properties held for sale increased by 5,286 million yen from the end of the previous fiscal year. Interest-bearing liabilities increased by 5,755 million yen from the end of the previous fiscal year. Accordingly, total assets increased by 5,710 million yen from the end of the previous fiscal year.

The total balance of properties held for sale or rental revenue at the end of this second quarter increased to 50,364 million yen from the end of the previous fiscal year because of acquisitions mentioned above.

The details of the consolidated balance sheet for this fiscal year are as follows.

The "ratio" indicates the percentage relative to total assets (total liabilities and net assets).

(Assets)

Total assets at the end of this second quarter were 64,565 million yen. Of this, real estate for sale and real estate for sale in process accounted for 43,701 million yen (67.7% ratio), cash and deposits for 9,611 million yen (14.9%), and properties held for rental revenue (included in property, plant and equipment) for 6,663 million yen (10.3%).

(Liabilities)

Total liabilities at the end of this second quarter were 46,102 million yen. Of this, interest-bearing liabilities accounted for 40,565 million yen, which were increased by 5,755 as a result of increase of income properties.

(Net assets)

Total net assets amounted to 18,462 million yen. Of this, capital stock and capital surplus accounted for 11,634 million yen.

(3) Description of future consolidated results plan and other future forecasts

In the first half, results were largely in line with our results plan (consolidated net sales: 47,000 million yen; consolidated operating income: 3,000 million yen; net income before income taxes: 2,300 million yen; and net income attributable to owners of parent: 1,565 million yen) for the fiscal year under review (ending December 31, 2024), and as such there are no changes to the plan at present.

The results plan for the three years of the Second Medium-Term Management Plan (Fiscal year ending December 31, 2024, to December 31, 2026), announced on February 8, 2024, are shown in Table 1. As per Table 2, the Group has almost always achieved its initial results plans. To further reduce capital costs, we have formulated the results plan shown in Table 1 based on a thorough balance between probability and growth rate.

Table 1

(million yen)

Consolidated	FY2021 (Fiscal year ended December 31, 2021)	FY2022 (Fiscal year ended December 31, 2022)	FY2023 (Fiscal year ended December 31, 2023)	FY2024 (Fiscal year ending December 31, 2024)	FY2025 (Fiscal year ending December 31, 2025)	FY2026 (Fiscal year ending December 31, 2026)
	Results	Results	Results	Plan	Plan	Plan
Net sales	24,961	27,856	41,342	47,000	52,000	58,000
Operating Income	933	1,376	2,441	3,000	3,300	3,700
Net income before income taxes	650	910	2,066	2,300	2,600	3,000
Income property balance	28,914	41,476	44,798	45,000	46,000	50,000
Shareholders' equity	14,724	15,217	16,353	17,500	18,500	20,000
ROE	2.2%	3.5%	9.0%	9.2%	9.6%	10.4%
ROIC	1.8%	2.2%	4.0%	4.3%	4.6%	4.8%
Human resource productivity "PH gross profit"	24/person	25/person	31/person	33/person	34/person	35/person
Financial soundness "Equity ratio"	35.1%	29.6%	29.1%	Approx. 30%	Approx. 30%	Approx. 30%
Shareholder value "EPS"	7.22 yen	11.32 yen	29.85 yen	32.95 yen	36.35 yen	41.76 yen

Notes 1: Balance of income properties: Total balance of properties held for sale or rental revenue

2: ROE: Net income attributable to owners of parent / average shareholders' equity (Figures may differ from net income on equity.)

3: ROIC: (Net income attributable to owners of parent + interest expenses + borrowing fee) / (balance of average shareholders' equity + balance of average interest-bearing liabilities)

4: PH gross profit (gross profit per head): Gross profit / average number of employees

5: EPS (earnings per share): Net income attributable to owners of parent / average number of shares during the period

Note that figures in "Plan" in Table 1 are targets for our businesses, which differ from the forecasts and predictions.

Table 2

(million yen)

Net income before income taxes or ordinary income	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Plan	450	500	600	800	900	1,000	890	400	600	800	2,000
Results	450	540	650	(835)	924	1,043	933	432	650	910	2,066
Achievement rate	100%	108%	108%	(104%)	103%	104%	105%	108%	108%	114%	103%

Note 1: The ordinary income for the period between FY2013, and FY2016, and the net income before income taxes for the period between FY2017 and FY2023.

- 2: In FY2016, an extraordinary gain of 86 million yen was recorded from the sale of properties classified as property, plant and equipment. Ordinary income amounted to 748 million yen, but we recognized 835 million yen of net income before income taxes as actual ordinary income and presented it as actual results in the ordinary income plan of 800 million yen (net income before income taxes plan not announced in FY2016).
- 3 FY2020 was an irregular accounting period of nine months between April 1, 2020, and December 31, 2020.

The status of the monitoring indicators for “the acquisition of corporate agility,” a medium- to long-term initiative within the Second Medium-Term Management Plan (Fiscal year ending December 31, 2024 to December 31, 2026), is as below.

【Equity ratio: Improvement of durability with respect to real estate market fluctuation risks】

Q2 FY2024 (Results)	Target
28.5%	Approx. 30%

【Non-asset business share: Improvement of agility through development of businesses not dependent on assets】

Q2 FY2024 (Results)	Target
11.2%	30%

*Non-asset business share = $\frac{[(\text{Consolidated gross profit} - \text{Sales brokerage fees}) - (\text{Income property sales gross profit} - \text{Sales brokerage fees} + \text{Rental gross profit})]}{\text{Consolidated marginal profit}} \times \frac{[\text{Consolidated gross profit} - \text{Sales brokerage fees}]}{[\text{Consolidated gross profit} - \text{Sales brokerage fees}]}$

【Coverage of fixed costs: Improvement of flexibility by building a stable income base】

Q2 FY2024 (Results)	Target
38.5%	To be monitored for the time being

* Coverage of fixed costs = $\frac{[(\text{Consolidated gross profit} - \text{Sales brokerage fees}) - (\text{Income property sales gross profit} - \text{Sales brokerage fees})]}{\text{Fixed costs}} \times \frac{[\text{Consolidated gross profit} - \text{Sales brokerage fees}]}{[\text{Selling, general and administrative expenses} - \text{Sales brokerage fees} + \text{Interest expenses}]}$

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated balance sheets

(Unit: Thousands of yen)

	As of December 31, 2023	As of June 30, 2024
Assets		
Current assets		
Cash and deposits	9,810,667	9,611,881
Accounts receivable - trade	116,163	324,931
Real estate for sale	35,102,713	40,296,666
Real estate for sale in process	3,311,774	3,404,713
Other	1,952,800	1,953,520
Allowance for doubtful accounts	(949)	(1,845)
Total current assets	50,293,170	55,589,866
Non-current assets		
Property, plant and equipment		
Other, net	6,558,768	6,853,837
Total property, plant and equipment	6,558,768	6,853,837
Intangible assets		
Goodwill	327,320	311,482
Other	102,356	113,529
Total intangible assets	429,677	425,011
Investments and other assets		
Investment securities	661,138	766,697
Deferred tax assets	477,449	506,683
Other	411,682	406,643
Total investments and other assets	1,550,270	1,680,025
Total non-current assets	8,538,716	8,958,874
Deferred assets		
Establishment costs	9,766	5,879
Bonds issuance cost	13,254	10,603
Total deferred assets	23,021	16,483
Total assets	58,854,908	64,565,224
Liabilities		
Current liabilities		
Accounts payable - trade	1,258,379	978,419
Short-term loans payable	779,400	751,000
Current portion of bonds	390,200	390,000
Current portion of long-term loans payable	7,014,001	5,313,427
Income taxes payable	661,507	582,410
Crowd funding and other deposits received	2,257,357	1,338,596
Provisions	254,518	160,775
Other	2,433,065	2,455,287
Total current liabilities	15,048,430	11,969,916
Non-current liabilities		
Bonds payable	675,900	481,000
Long-term loans payable	25,951,316	33,630,549
Other	12,535	21,052
Total non-current liabilities	26,639,752	34,132,601
Total liabilities	41,688,182	46,102,517

(Unit: Thousands of yen)

	As of December 31, 2023	As of June 30, 2024
Net assets		
Shareholders' equity		
Capital stock	6,262,735	6,274,930
Capital surplus	5,346,478	5,359,739
Retained earnings	4,980,357	5,674,437
Treasury shares	(235,687)	(213,633)
Total shareholders' equity	16,353,883	17,095,473
Accumulated other comprehensive income		
Foreign currency translation adjustments	726,319	1,266,575
Valuation difference on available-for-sale securities	26,017	44,113
Total accumulated other comprehensive income	752,336	1,310,688
Subscription rights to shares	29,206	25,924
Non-controlling interests	31,298	30,620
Total net assets	17,166,725	18,462,707
Total liabilities and net assets	58,854,908	64,565,224

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

Consolidated Profit and Loss Statement

First half of consolidated fiscal year

(Unit: Thousands of yen)

	Previous consolidated First half (January 1, 2023 – June 30, 2023)	Current consolidated First half (January 1, 2024 – June 30, 2024)
Net sales	19,145,701	20,814,362
Cost of sales	15,780,204	16,378,400
Gross profit	3,365,497	4,435,961
Selling, general and administrative expenses	1,995,863	2,615,189
Operating income	1,369,633	1,820,772
Non-operating income		
Interest and dividend income	36,617	12,256
Foreign exchange gains	109,719	—
Other	3,162	12,631
Total non-operating income	149,498	24,887
Non-operating expenses		
Interest expenses	244,484	270,054
Borrowing fee	30,616	63,418
Amortization of establishment costs	3,887	3,887
Loss on equity method investments	—	15,383
Other	20,308	23,659
Total non-operating expenses	299,296	376,402
Ordinary income	1,219,836	1,469,257
Extraordinary income		
Gain on sales of investment securities	25,933	—
Gain on sales of investment share acquisition rights	38,381	—
Total extraordinary income	64,314	—
Extraordinary loss		
Loss on disposal of fixed assets	—	1,521
Total extraordinary loss	—	1,521
Quarterly net income before income taxes	1,284,150	1,467,735
Income taxes - current	419,259	553,895
Total income taxes	419,259	553,895
Quarterly net income	864,891	913,840
Quarterly net income attributable to non-controlling interests	267	△2,053
Net income attributable to owners of parent	864,624	915,893

Consolidated Comprehensive Income Statement

First half of consolidated fiscal year

(Unit: Thousands of yen)

	Previous consolidated First half (January 1, 2023 - June 30, 2023)	Current consolidated First half (January 1, 2024 - June 30, 2024)
Quarterly net income	864,891	913,840
Other comprehensive income		
Valuation difference on available-for-sale securities	8,270	18,095
Foreign currency translation adjustments	223,402	540,256
Total other comprehensive income	231,672	558,352
Quarterly comprehensive income	1,096,563	1,472,192
(Breakdown)		
Comprehensive income attributable to owners of parent	1,096,296	1,474,245
Comprehensive income attributable to non-controlling interests	267	(2,053)

(3) Notes for the quarterly consolidated financial statements

(Notes on the going concern assumption)

Not applicable

(Notes on significant changes in amount of shareholders' equity)

Not applicable

(Application of specific accounting methods when preparing quarterly consolidated financial statements)

Calculation of tax expenses

The Company calculates tax expenses by reasonably estimating the effective tax rate after applying tax effect accounting to net income before taxes for the consolidated fiscal year, including this second quarter, and multiplying net income before income taxes or net loss before income taxes by this estimated effective tax rate.

The adjusted income tax amounts are included in income tax, inhabitant tax and enterprise tax.

(Notes on segment information, etc.)

< Segment information >

I. First Half of previous consolidated fiscal year (January 1, 2023, to June 30, 2023)

Information on net sales and profit for each reportable segment

(Thousands of yen)

	Reportable segments			Adjustments*1	Semi-annual consolidated profit/loss posted *2
	Income property sales business	Stock-type fee business	Total		
Net sales					
Net sales to external customers	16,297,600	2,848,101	19,145,701	—	19,145,701
Intersegment sales	—	182,221	182,221	(182,221)	—
Total	16,297,600	3,030,322	19,327,923	(182,221)	19,145,701
Segment profit (Operating profit)	1,340,120	682,757	2,022,877	(653,243)	1,369,633

(Notes)

*1 The adjustments for segment profit are elimination of inter-segment transactions and corporate expenses that are not allocated to reportable segments.

*2 Segment profit is adjusted with operating profit on the semi-annual consolidated profit and loss statement.

II. First Half of current consolidated fiscal year (January 1, 2024, to June 30, 2024)

Information on net sales and profit for each reportable segment

(Thousands of yen)

	Reportable segments			Adjustments*1	Semi-annual consolidated profit/loss posted *2
	Income property sales business	Stock-type fee business	Total		
Net sales					
Net sales to external customers	18,113,656	2,700,705	20,814,362	—	20,814,362
Intersegment sales	—	253,313	253,313	(253,313)	—
Total	18,113,656	2,954,019	21,067,675	(253,313)	20,814,362
Segment profit (Operating profit)	2,179,577	553,305	2,732,883	(912,110)	1,820,772

(Notes)

*1 The adjustments for segment profit are elimination of inter-segment transactions and corporate expenses that are not allocated to reportable segments.

*2 Segment profit is adjusted with operating profit on the semi-annual consolidated profit and loss statement.