

Summary of Earnings Report for the Fiscal Year Ended December 31, 2020

February 10, 2021

Name of listed company: A.D.Works Group Co., Ltd. Listed stock exchange: Tokyo Stock Exchange
 Code: 2982 URL <https://www.adwg.co.jp/>
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 Scheduled date for the Ordinary General Meeting of Shareholders: March 26, 2021 Scheduled date of dividend payment: March 10, 2021
 Scheduled date of filing: March 26, 2021
 Additional material of financial results: Yes
 Results meeting: No

(Millions of yen, rounded down)

1. Consolidated Results for the Fiscal Year Ended December 31, 2020 (April 1, 2020–December 31, 2020)

(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 December 31, 2020	16,840	—	645	—	427	—	264	—

(Notes) Comprehensive Income: Year ended December 31, 2020 65 Million yen ((—%))

	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 December 31, 2020	6.77	6.70	2.0	1.2	3.8

(Notes) Investment gain or loss on equity method: December 31, 2020 — Million yen

(Note) Since the Company was established on April 1, 2020 through a sole share transfer, there are no results to report for the previous fiscal year. In addition, this fiscal year is an irregular nine-month financial period covering the period from April 1 to December 31, 2020. As a result, the equity ratio and the ratio of ordinary income to total assets (ROA) are calculated based on results for these nine months. When converted to a twelve-month period, the equity ratio would be 2.7% and the ROA would be 1.6%.

(2) Consolidated financial condition

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	¥ millions	¥ millions	%	Yen
Fiscal year ended December 31, 2020	35,850	13,216	36.8	330.25

(Notes) Shareholders' equity: December 31, 2020 13,203 Million yen

(Note) Since the Company was established on April 1, 2020 through a sole share transfer, there are no results to report for the previous fiscal year.

2. Dividend Information

	Dividend per Share					Dividends (total)	Dividend payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	1Q	Interim	3Q	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	¥ millions	%	%
Fiscal year ended December 31, 2020	—	0.00	—	2.63	2.63	106	38.8	0.8
Fiscal year ending December 31, 2021 (estimate)	—	—	—	—	—	—	—	—

(Notes)

- Correction to most recently announced dividend forecast: None
- Since the Company was established on April 1, 2020 through a sole share transfer, this fiscal year covers a nine-month period.

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, 2021 (January 1, 2021–December 31, 2021)

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, which are 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.

(%: Year-on-year comparison)

	Net Sales		EBITDA		Ordinary Income		Net income before taxes		Net income attributable to owners of parent	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
Full year	23,000	—	1,100	—	600	—	600	—	380	—

(Notes) Since this fiscal year was an irregular nine-month fiscal period, the change over the previous period is not noted here.

※ Notes

(1) Important changes in subsidiaries during the term (changes in specific subsidiaries resulting in changes in scope of consolidation): None

(2) Changes in accounting policies, changes or restatement of accounting estimates

1. Changes in accounting policies associated with the revision of accounting standards, etc.: None
2. Changes in accounting policies other than 1.: None
3. Changes in accounting estimates: None
4. Restatement: None

(3) Number of outstanding shares (ordinary shares)

1. Number of outstanding shares at end of fiscal year (including treasury stock)	Fiscal year ended on December 31, 2020	40,495,064 shares
2. Number of treasury stock at end of fiscal year	Fiscal year ended on December 31, 2020	514,062 shares
3. Average number of shares during the period	Fiscal year ended on December 31, 2020	39,085,051 shares

(Note) The Company has introduced a Director Stock Compensation Trust and Employee Stock Holding Exclusive Trust, and the Company shares held by the trusts are included in the number of treasury stock.

※ This Summary of Earnings Report is not subject to audit by a certified public accountant or audit corporation.

※ Explanation of the proper use of results forecasts, and additional information

The results forecasts and business plans discussed in these materials are not intended as a guarantee by the Company with respect to the achievement of these forecasts and plans. Actual results may differ significantly for a variety of reasons.

1. Overview of Business Results

(1) Overview of business results for the fiscal year under review

During the consolidated fiscal year under review, A.D.Works Group Co., Ltd. was established as the wholly owned parent company of A.D.Works through a sole share transfer on April 1, 2020, and although this consolidated fiscal year was the first year since its founding, there were no effective changes in the scope of consolidation. As a result, when comparing results to the end of the previous consolidated fiscal year, the point of comparison will be the end of the 94th consolidated fiscal year (March 31, 2020) of A.D.Works, Co., Ltd. However, A.D.Works Group was established with a fiscal year ending in December, making this fiscal year an irregular nine-month period, so comparisons will not be made to the cumulative results of A.D.Works, Co., Ltd. during the 94th consolidated fiscal year (from April 1, 2019 to March 31, 2020).

In this consolidated fiscal year, the Japanese economy continued to face extremely harsh conditions due to the impact of the spread of COVID-19. During this period, the government repeatedly took various measures and called on the public to take steps with the aim of balancing outbreak prevention with economic activity. Despite these measures, COVID-19 cases increased further with second and third waves, and the impact grew more protracted and severe. The actual economy seemed to have recovered thanks to the effect of various government measures, but conditions remain uncertain and difficult to predict, while only the stock market has moved ahead and reached highs not seen since Japan's bubble period.

The impact of the growing COVID-19 outbreak means that it is still difficult to read trends in the business environment for income-earning real estate in urban areas, which is the Group's main business area, including supply/demand conditions. However, demand for rigorously selected products is solid, and activity is picking up again. At the same time, in Los Angeles, California, where the Group has an office, the COVID-19 outbreak has had a more severe impact than in Japan, and the market remains in a slump.

In this kind of business environment, the Group's income property sales business, its key business, declined significantly due to the impact of the state of emergency declaration in the first quarter, however sales activities resumed in earnest from July, and results comparable to pre-pandemic levels were achieved from July through December. The Group also succeeded in reinforcing its organizational strength, which has long been a key focus, and was able to acquire prime properties by improving its acquisition skills, in addition to enhancing its product planning and sales skills.

In addition, the Group laid the groundwork for new business expansion in the future. The Group tried out new product plans for income properties, such as beginning to offer a co-working space in a property it owns in Shimokitazawa, and established ADW Hawaii LLC to promote its business in Hawaii in earnest and formed Jupiter Funding to examine various financing methods. The Group also decided to enter the corporate venture capital business with the aim of creating synergistic value.

As a result, in the fiscal year under review, the Group's consolidated sales totaled 16,840 million yen (5.3% higher than the full-year business plan), EBITDA came to 759 million yen (11.7% over plan), ordinary income amounted to 427 million yen (6.8% over plan), net income before taxes was 432 million yen (8.2% over plan), and net income totaled 264 million yen (3.9% over plan). Compensating for harsh results in the first quarter, all indicators stabilized at levels above our initial forecasts.

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

(Unit: million yen)

	Fiscal year ended December 31, 2020 (Full-year plan)		Fiscal year ended December 31, 2020 (Results)		
	Amount	Net sales ratio	Amount	Net sales ratio	Percentage of full-year plan achieved
Net sales	16,000	100.0%	16,840	100.0%	105.3%
(Property sales)	—	—	(13,534)	(80.4%)	—
(Stock)	—	—	(3,480)	(20.7%)	—
(Internal sales)	—	—	(-173)	(-1.0%)	—
EBITDA	680	4.3%	759	4.5%	111.7%
Ordinary income	400	2.5%	427	2.5%	106.8%
Net income before taxes	400	2.5%	432	2.6%	108.2%
Net income	255	1.6%	264	1.6%	103.9%

Note 1: "Property sales," "stock," "pre-tax income," and "net income" are the respective abbreviations of "income property sales business," "stock-type fee business," "net income before taxes and other adjustments," and "net income attributable to owners of the parent."

Note 2: EBITDA (operating income before depreciation and amortization): Operating income + depreciation and amortization
Depreciation and amortization includes depreciation, software amortization, amortization of goodwill, and any other non-cash expenses.

Note 3: The full-year plan for the December 2020 fiscal year covers the nine-month period from April 1 to December 31, 2020.

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

(Income property sales business)

Net sales were 13,534 million yen, EBITDA was 1,050 million yen, and operating income was 1,048 million yen.

In the first quarter, although the Group's income property sales business declined significantly due to the impact of the state of emergency declaration, sales activities resumed in earnest from July, and results comparable to pre-pandemic levels were achieved from July through December. The Group is focusing on new initiatives, such as trying out new product plans for income properties with the launch of a co-working space in a property it owns in Shimokitazawa and the establishment of ADW Hawaii LLC to promote its business in Hawaii in earnest.

The acquisition amount was 11,789 million yen, and we succeeded in reinforcing organizational strengths, which had long been a focus. As a result of improved acquisition skills, we were able to acquire prime properties.

As a result, the balance of income properties was 24,682 million yen (Note 2), which was 1,564 million yen higher than the balance at the end of the previous fiscal year.

(Stock-type fee business)

Net sales were 3,480 million yen, EBITDA was 647 million yen, and operating income was 568 million yen.

Since rent from income properties held by the Group accounts for the majority of its revenue, the impact of the COVID-19 outbreak was modest and we were able to record net sales and operating income generally in line with plans. In construction orders and other, we were able to achieve results such as bringing in large-scale projects through the end of the fiscal year.

The "stock-type" sales in this business consist primarily of management income from A.D.Partners corporation and rent income from ADW Management USA, Inc., while "flow-type" sales consist mainly of construction and repair income from A.D.Designbuild corporation and construction income from Sumikawa Works Co., Ltd.

The average balance of income properties during this period increased to 24,390 million yen in this consolidated fiscal year compared to 22,216 million yen at the end of the previous fiscal year due to the contribution from the proactive acquisition of large-scale properties since the previous fiscal year.

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.

Note 2: The income property balance of 24,682 million yen does not include the estimated consumption tax provision (14 million yen) to be booked as an asset following the receipt in July 2018 of a notice of correction from the Tokyo Regional Taxation Bureau regarding consumption taxes for previous years.

Note 3: In the "stock-type fee business," we position items such as rent from income properties held for the medium to long term or for short-term sales, and fee income from after-sales property management contracts for income properties as "stock-type," while interior decorating and repair work fees for managed properties and brokerage income derived from customer relations are classified as "flow-type."

(2) Outlook

1. Consolidated results plan for the fiscal year ending on December 31, 2021

In our consolidated results plan for the fiscal year ending on December 31, 2021, we will focus further on the acquisition of carefully selected income-earning properties, and will strive to strengthen our growth foundation through our income property sales business, which is our main business. On the sales front, we will reinforce sales to business corporations and institutional investors as an opportunity to expand demand for investment solutions, and will also endeavor to expand the scope of individual investors

through the sale of small-lot real estate products and crowd funding. In addition, we will aggressively pursue the development of a wide range of new products and services both in Japan and overseas, including financial products.

There are currently no signs that the COVID-19 outbreak is subsiding, as evidenced by the declaration of a state of emergency for the second time in January 2021, and we will have to continue closely monitoring economic trends. Conditions in the real estate industry to which the Group belongs remain uncertain, but our consolidated results plan (shown in the table below) for the next consolidated fiscal year (ending on December 31, 2021) is premised on the assumption that the market environment in the second half of 2020 will carry over into the next fiscal year.

In our income property sales business, which is our main business, the timing of sales tends to change depending on various factors, such as product plans and progress with construction work to upgrade properties. In recent years, the weight of income from individual properties as a proportion of overall income has increased as we have strategically boosted the scale of our product lineup. As a result, income could fluctuate each quarter more than previously, regardless of conditions in the real estate market and other factors.

	Fiscal year ended December 31, 2020 (Results) (Nine-month period from April 1 to December 31, 2020)	Fiscal year ending in December 2021 (plan)
Net sales	16,840 million	23,000 million
EBITDA	759 million	1,100 million
Ordinary income	427 million	600 million
Net income before taxes	432 million	600 million

Note: The A.D.Works Group announces its business targets for each consolidated fiscal year in the form of a “results plan” consisting of targets for our businesses, which differ 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.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

(Unit: Thousands of yen)

	Current consolidated fiscal year (year ended December 31, 2020)
Assets	
Current assets	
Cash and deposits	7,400,118
Accounts receivable – trade	200,952
Real estate for sale	23,548,720
Real estate for sale in process	1,018,042
Other	2,233,033
Allowance for doubtful accounts	(1,455)
Total current assets	34,399,411
Non-current assets	
Property, plant and equipment	
Buildings	180,844
Accumulated depreciation	(73,098)
Buildings (net)	107,746
Tools, furniture, and fixtures	119,196
Accumulated depreciation	(81,925)
Tools, furniture, and fixtures (net)	37,270
Vehicles (net)	18,793
Accumulated depreciation	(18,487)
Vehicles (net)	305
Land	30,587
Total property, plant and equipment	175,910
Intangible fixed assets	
Goodwill	59,188
Other	49,065
Total intangible fixed assets	108,254
Investments and other assets	
Investment securities	478,860
Deferred tax assets	400,597
Other	232,839
Total investments and other assets	1,112,297
Total non-current assets	1,396,462
Deferred assets	
Share issuance cost	22,126
Establishment costs	32,724
Total deferred assets	54,851
Total assets	35,850,726

(Unit: Thousands of yen)

Current consolidated fiscal year
(year ended December 31, 2020)

Liabilities	
Current liabilities	
Accounts payable – trade	718,808
Short-term loans payable	30,000
Current portion of bonds	219,400
Current portion of long-term loans payable	1,651,481
Income taxes payable	133,692
Other	2,660,622
Total current liabilities	5,414,005
Non-current liabilities	
Bonds payable	627,500
Long-term loans payable	16,488,893
Other	103,415
Total non-current liabilities	17,219,809
Total liabilities	22,633,814
Net assets	
Shareholders' equity	
Capital stock	5,590,097
Capital surplus	4,601,359
Retained earnings	3,383,660
Treasury shares	(62,120)
Total shareholders' equity	13,512,998
Accumulated other comprehensive income	
Foreign currency translation adjustments	(305,634)
Valuation difference on available-for-sale securities	(3,506)
Total accumulated other comprehensive income	(309,141)
Subscription rights to shares	13,055
Total net assets	13,216,911
Total liabilities and net assets	35,850,726

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

Consolidated Profit and Loss Statement

(Unit: Thousands of yen)

	Current consolidated fiscal year (April 1, 2020 - December 31, 2020)
Net sales	16,840,798
Cost of sales	13,693,478
Gross profit	3,147,319
Selling, general and administrative expenses	2,501,567
Operating income	645,752
Non-operating income	
Interest and dividend income	222
Insurance income	844
Interest on tax refund	2,419
Benefit income	2,000
Income on difference to simplified tax such as consumption tax, etc.	15,859
Other	2,046
Total non-operating income	23,392
Non-operating expenses	
Interest expenses	184,572
Borrowing fee	23,342
Amortization of establishment costs	5,775
Other	28,229
Total non-operating expenses	241,920
Ordinary income	427,223
Extraordinary income	
Gain on sales of non-current assets	336
Gain on reversal of subscription rights to shares	5,082
Total extraordinary income	5,418
Net income before income taxes	432,642
Income taxes – current	189,971
Income taxes adjustment	(22,317)
Total income taxes	167,654
Net income	264,988
Net income attributable to owners of the parent	264,988

Consolidated Comprehensive Income Statement

(Unit: Thousands of yen)

Current consolidated fiscal year
(April 1, 2020 –
December 31, 2020)

Net income	264,988
Other comprehensive income	
Valuation difference on available-for-sale securities	(404)
Foreign currency translation adjustments	(198,889)
Total other comprehensive income	(199,293)
Comprehensive income	65,694
(Breakdown)	
Comprehensive income attributable to owners of the parent	65,694
Comprehensive income attributable to non-controlling interests	—