Summary of Earnings Report for First Quarter of Year Ending March 31, 2018

July 24, 2017

Name of listed company: A.D.Works, Ltd. Listed stock exchange: Tokyo Stock Exchange
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Scheduled date of filing August 10, 2017 Scheduled date of dividend payment
Additional material of financial result : Yes
Result meeting : None

(Millions yen, rounded down)

1. Consolidated Results for the First Quarter of the Fiscal Year Ending March 31, 2018 (April 1, 2017–June 30, 2017)

(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 quarter, year ending March 31, 2018	6,185	88.6	407	200.1	347	402.1	221	111.1
First quarter, year ended March 31, 2017	3,279	(28.5)	135	(53.9)	69	(72.1)	105	(35.1)

(Notes) Comprehensive Income: 2018 1Q 212 million yen (496.0 %) 2017 1Q 35 million yen ((77.7 %))

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
First quarter, year ending March 31, 2018	1.02	1.02
First quarter, year ended March 31, 2017	0.49	0.48

(2) Consolidated financial conditions

	Total Assets	Net Assets	Shareholders' Equity ratio
	Million yen	Million yen	%
First quarter, year ending March 31, 2018	23,229	6,566	28.3
End of fiscal year ended March 31, 2017	25,832	6,415	24.7

(Notes) Shareholders' equity: 2018 1Q 6,562 million yen End of 2017 6,391 million yen

2. Dividends Information

	Dividend per Share				
	1Q	Interim	3Q	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2017	—	0.00	—	0.55	0.55
Fiscal year ended March 31, 2018	—				
Fiscal year ending March 31, 2018 (forecast)		1.65	—	—	—

(Notes)

1. Correction to most recently announced dividend forecast: None

2. Year-end dividends for the fiscal year ending March 31, 2018 have yet to be determined.

3. Consolidated Business Plan for Fiscal Year Ending March 31, 2018

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	20,000	5.4	1,400	15.1	900	20.3	900	7.8	580	7.3

1. Qualitative Information Concerning this Quarterly Earnings Report

(1) Explanation of business results

During the first quarter of this consolidated fiscal year (hereinafter, "the first quarter"), employment and income conditions improved in Japan, and there were continuing expectations of a gradual, economic recovery. While there were also expectations for a continued economic recovery overseas, it was necessary to keep watch on a few factors, including the impact of the monetary policy normalization in the US, the impact of economic trends in China and other emerging countries, and the impact of fluctuations in financial and capital markets.

In the business environment surrounding the A.D.W. Group, although the number of secondhand condominiums sold in the Tokyo metropolitan area is continuing to rise, the number of inventory properties is also rising, and, despite its buoyancy, parts of the retail market are starting to see a cautious outlook emerge. The same is true in the income property market, and so the A.D.W. Group carried out its business activities while paying close attention to the trends in market conditions.

Under these business conditions, 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), the A.D.W. Group has set forth the basic policies of "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," and then worked on a variety of measures to achieve them.

In order to acquire funds for growth, aimed at the achievement of the Fifth Mid-Range Business Plan, the implementation of a rights offering was announced on April 25, 2017 the in "Announcement of Non-commitment-type Rights Offering (Exercise-price Non-discount Type) and Commemorative Dividend (Interim Dividend)", and approved at the 91st Ordinary General Meeting of Shareholders held on June 29, 2017.

In addition, the payment of a commemorative dividend (1.65 yen per share) as the first interim dividend that was proposed at the 91st Ordinary General Meeting of Shareholders, from the viewpoint of our shareholder support appreciation, was approved in the same manner as the rights offering. Furthermore, the establishment of a shareholders club was announced on May 15, 2017 in the "Notice on Shareholder Incentives: Establishment of the A.D.W. Shareholder Club" for the purpose of strengthening our relationships with shareholders.

As for the results for the first quarter, our business in Los Angeles, US continued to perform strongly as high levels of economic growth in the US were maintained, and it recorded sales of 1,103 million yen, accounting for 17.8% of consolidated net sales.

The business results for the first quarter are as shown in the table below, and ordinary income and net income attributable to owners of parent reached their highest amounts ever on a quarterly basis.

(Units: Millions yen)

	Fiscal year ending March 31, 2018 (full-year plan)		First quarter, year ended March 31, 2017 (results)		First quarter, year ending March 31, 2018 (results)			
	Amount	Ratio	Amount	Ratio	Amount	Ratio	YoY	Full-year plan progress
Sales	20,000	100%	3,279	100.0%	6,185	100.0%	188.6%	30.9%
(Property sales)	—	—	(2,852)	(87.0%)	(5,623)	(90.9%)	(197.1%)	—
(Stock)	—	—	(468)	(14.3%)	(682)	(11.0%)	(145.7%)	—
EBITDA	1,400	7.0%	239	7.3%	436	7.1%	182.1%	31.2%
Ordinary income	900	4.5%	69	2.1%	347	5.6%	502.1%	38.6%
Pre-tax income	900	4.5%	156	4.8%	347	5.6%	222.6%	38.6%
Net income	580	2.9%	105	3.2%	221	3.6%	211.1%	38.3%

Note 1: "Property sales," "Stock," "Pre-tax income," and "Net income" are the abbreviations of "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 includes depreciation, software amortization, amortization of goodwill, and other expenses that do not involve cash disbursement.

In addition, we include income properties held for long-term sale in fixed assets, and we have recorded a part of the gain or loss on sales from the income properties held for long-term sale in the section of extraordinary gains or losses on the consolidated profit and loss statement. EBITDA is calculated by including the extraordinary gains and losses.

Note 3: Because segment net sales include internal sales resulting from intra-group transactions, the total of Property sales and Stock does not match the total for consolidated net sales.

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)

In this business segment, based on the business plan set forth at the start of the fiscal year, we actively carried out sales activities.

Meanwhile, trust from clients remained high towards our one-stop service encompassing services from renovation to property management, and we sold nine properties in Japan and five properties in the United States, where business is expanding.

When acquiring income properties as real estate prices continue to rise, we have made optimal use of our information gathering ability and purchase judgment expertise in focusing on selecting properties with high profit potential. As a result, we completed acquisitions of seven properties in Japan and three properties in the United States, recording a total acquisition amount of 2,061 million yen.

As a result of the factors above, in the first quarter, net sales were 5,623 million yen (up 97.1% year on year), EBITDA was 383 million yen (up 20.9% year on year), and operating income was 382 million yen (up 66.5% year on year). Furthermore, the balance of income properties, which will be a prime source of future profits, was 17,789 million yen, versus 20,318 million yen at the end of the previous fiscal year.

(Stock-type fee business)

This business segment is the segment that serves as an indicator of "achieving a stable profit base," which was set forth in the Fifth Mid-Range Business Plan.

Our business of contracting property management for income properties after they are sold remains strong, and the number of income properties under our management in Japan at the end of the first quarter was 4,243 (compared with 4,157 at the end of the previous fiscal year). In addition, the balance of income properties increased over the end of the previous first quarter (15,736 million yen) to 17,789 million yen at the end of the first quarter as was described above. As a result of these factors, net sales of rental income and property management contracts increased.

On the other hand, expenses related to our Stock-type fee business also increased. This was due to a couple of factors, including an increase in contracting expenses related to maintenance resulting from the growing numbers of properties owned and managed, as well as an increase in personnel expenses resulting from organizational expansion in preparation for future growth.

As a result of the activities described above, for Japan and overseas combined, net sales were 682 million yen (up 45.7% year on year), EBITDA was 295 million yen (up 71.6% year on year), and operating income was 277 million yen (up 71.7% year on year).

(2) Forecast for the next fiscal year

Based on the basic policy of the Fifth Mid-Range Business Plan, A.D.W. Group will focus on the following four measures.

Ⅰ. Continually expanding the scale of income property business in Japan

Ⅱ. Expanding the balance of income properties in the United States

Ⅲ. Development of business that will become a new pillar of future earnings

Ⅳ. Restructuring of capabilities

There are no changes to the consolidated results plan for the year ending March 31, 2018 that was announced on May 11 2017.

(Consolidated results plan for the year ending March 31, 2018)

(Units: Millions yen)

	Year ended March 31, 2017 (results)	Year ending March 31, 2018 (plan)
Consolidated net sales	18,969	20,000
Consolidated EBITDA	1,216	1,400
Consolidated ordinary income	748	900
Consolidated net income before tax	835	900
Consolidated net income	540	580
Consolidated ROE (end of year)	8.5%	—

Note 1: The business plans released by our company represent targets that we aim to achieve in our business, and are different from "forecasts and predictions" that are calculated rationally based on information that is considered to be highly accurate. Our company will update its progress forecast for each quarter, whenever necessary, based on the highly reliable information which is available at that time from the group, and on information that is judged to be reasonable.

Note 2: Consolidated ROE (end of year) is calculated by dividing net income by year-end shareholders' equity.

Note 3: Accompanying the implementation of the non-commitment-type rights offering (exercise-price non-discount type) that was approved at the 91st Ordinary General Meeting of Shareholders held on June 29, 2017, the 20th Subscription Rights to Shares (exercise period from July 13, 2017 to September 12, 2017) will be allotted without contribution. The Company's shareholders' equity at the end of the fiscal year ending March 31, 2018, is difficult to forecast because it will be greatly affected by the amount of financing raised through the rights offering. Therefore, our forecast of ROE at the end of the fiscal year ending March 31, 2018, is not yet determined.

2. Consolidated Financial Statements

(1) Consolidated balance sheets

(Units: Thousands yen)

	Previous consolidated fiscal year (year ended March 31, 2017)	Current consolidated first quarter (June 30, 2017)
Assets		
Current assets		
Cash and savings	4,425,499	4,505,536
Accounts receivable	110,053	96,028
Revenue-generating real estate held for sale	17,490,706	16,186,312
Real estate for sale in process	1,594,068	1,602,841
Other	523,682	374,023
Allowance for doubtful accounts	(998)	(1,246)
Total current assets	24,143,012	22,763,497
Fixed assets		
Tangible fixed assets		
Land	638,283	—
Other, net	684,711	90,731
Total tangible fixed assets	1,322,995	90,731
Intangible fixed assets	84,867	80,056
Investments and other assets	281,850	294,829
Total fixed assets	1,689,712	465,617
Total assets	25,832,725	23,229,114
Liabilities		
Current liabilities		
Accounts payable	660,311	400,534
Short-term loans payable	2,915,915	2,624,752
Current portion of bonds payment	189,500	169,500
Current portion of long-term loans payable	1,062,010	1,722,564
Corporate tax payable	164,912	89,094
Provision	30,616	88,246
Other	1,307,790	1,100,457
Total current liabilities	6,331,057	6,195,150
Fixed liabilities		
Corporate bonds	1,038,250	1,002,250
Long-term loans payable	12,000,318	9,424,505
Other	47,939	40,812
Total fixed liabilities	13,086,508	10,467,568
Total liabilities	19,417,565	16,662,719
Net assets		
Shareholders' equity		
Capital stock	1,944,554	1,944,554
Capital surplus	1,893,232	1,891,656
Retained earnings	2,919,488	3,018,770
Treasury stock	(356,230)	(273,205)
Total shareholders' equity	6,401,044	6,581,776
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(724)	(999)
Foreign currency translation adjustments	(3,984)	(13,193)
Deferred gains (losses) on hedges	(5,008)	(4,742)
Total accumulated other comprehensive income	(9,717)	(18,934)
Subscription rights to shares	23,832	3,553
Total net assets	6,415,159	6,566,395
Total liabilities and net assets	25,832,725	23,229,114

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

Consolidated Profit and Loss Statement

(Units: Thousands yen)

	Previous consolidated first quarter (April 1, 2016－June 30, 2016)	Current consolidated fiscal year (April 1, 2017－June 30, 2017)
Sales	3,279,619	6,185,589
Cost of sales	2,605,139	5,120,037
Gross profit on sales	674,479	1,065,552
Sales, general, and administrative expenses	538,718	658,111
Operating income	135,761	407,440
Non-operating income		
Interest and dividends income	32	33
Insurance received	530	294
Foreign exchange gains	―	3,266
Other	8	21
Total non-operating income	570	3,615
Non-operating expenses		
Interest paid	42,926	59,259
Borrowing fee	4,799	1,930
Foreign exchange loss	16,894	―
Other	2,518	2,412
Total non-operating expenses	67,139	63,602
Ordinary income	69,193	347,453
Extraordinary income		
Gain on sales of non-current assets	86,863	―
Total extraordinary income	86,863	―
Net income before taxes	156,056	347,453
Income taxes – current	50,955	125,540
Total income taxes	50,955	125,540
Net income	105,101	221,913
Net income attributable to owners of parent	105,101	221,913

Consolidated Profit and Loss Statement

(Units: Thousands yen)

	Previous consolidated first quarter (April 1, 2016－June 30, 2016)	Current consolidated fiscal year (April 1, 2017－June 30, 2017)
Net income before minority interests	105,101	221,913
Other comprehensive income		
Valuation difference on available-for-sale securities	(6,841)	(274)
Foreign currency translation adjustments	(63,854)	(9,209)
Deferred gains (losses) on hedges	1,280	265
Total other comprehensive income	(69,414)	(9,217)
Comprehensive income	35,686	212,695
(attributable to)		
Owners of the parent company	35,686	212,695
Minority interests	—	—