

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

June 11, 2020

Name of listed company: A.D.Works Group Co., Ltd.
(For A.D.Works, Co., Ltd.) Listed stock exchange: Tokyo Stock Exchange

Code: 2982 URL : <https://www.adwg.co.jp/>

Representative: Hideo Tanaka, President and CEO

Contact: Katsutoshi Hosoya, Senior Managing Director and CFO TEL: +81-(0) 3-5251-7641

Scheduled date of resolution of the ordinary general meeting of shareholders: June 25, 2020 Scheduled date of dividend payment: June 15, 2020

Scheduled date of filing: June 25, 2020

Additional material of financial results: Yes

Results meeting: No

(Millions of yen, rounded down)

1. Consolidated Results for the Fiscal Year Ended March 31, 2020 (April 1, 2019–March 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 March 31, 2020	24,687	(0.7)	1,291	(39.0)	932	(48.2)	625	(5.8)
Fiscal year ended March 31, 2019	24,861	11.5	2,116	74.7	1,802	94.5	663	13.6

(Notes) Comprehensive Income: Year ended March 31, 2020 554 Million yen ((33.9 %)) Year ended March 31, 2019 838 Million yen (120%)

	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 March 31, 2020	1.69	1.69	5.0	2.8	5.2
Fiscal year ended March 31, 2019	2.01	2.01	6.0	5.9	8.5

(Notes) Investment gain or loss on equity method: March 31, 2020 — Million yen March 31, 2019 — Million yen

(Note) On July 11, 2019, A.D.Works, Co., Ltd. carried out an allotment of subscription rights to shares based on a non-commitment rights offering (with a non-discounted exercise price), and it has issued new shares in conjunction with the exercise of the subscription rights to shares. The Company has calculated the net income per share and diluted net income per share based on the number of shares assuming that the payment for shares based on the rights offering was made at the start of the previous consolidated fiscal year.

(2) Consolidated financial condition

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	¥ millions	¥ millions	%	Yen
Fiscal year ended March 31, 2020	35,468	13,005	36.7	33.79
Fiscal year ended March 31, 2019	30,625	11,947	39.0	34.51

(Notes) Shareholders' equity: March 31, 2020 13,000 Million yen March 31, 2019 11,941 Million yen

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.

2. Dividends Information

	Dividend per Share				
	1Q	Interim	3Q	Year-end	Total
Fiscal year ended March 31, 2019	Yen —	Yen 0.00	Yen —	Yen 0.35	Yen 0.35
Fiscal year ended March 31, 2020	—	1.65	—	0.35	2.00

(Notes)

1. Correction to most recently announced dividend forecast: None
2. To express our gratitude to all the shareholders who supported our growth by contributing to our equity financing and return profits to shareholders, interim dividends for the fiscal year ended in March 2020 included a gratitude dividend of ¥1.65 per share.
3. As of April 1, 2020, the company has shifted to a holding company structure through sole share transfer, and since the company has become a wholly owned subsidiary of the A.D. Works Group, and delisted on March 30, 2020, the company has not carried out dividend forecasts and earnings forecasts. Please refer to the “Notice of Consolidated Financial Results Plan for the Fiscal Year Ending December 31, 2020” announced on June 11, 2020, for details regarding FY2020 consolidated earnings forecasts for the A.D. Works Group, which is our sole parent company.

Overview of Business Results

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

During the consolidated fiscal year under review, the Japanese economy treaded water with consumer spending only staging a moderate recovery despite improvements in corporate earnings and employment conditions, and exports slumping due to a slowdown in overseas economies. However, in the US, where the A.D.W. Group has an operating base, the economy continued to recover steadily due mainly to an increase in consumer spending and exports. The global spread of COVID-19 has completely changed this situation, and the domestic and overseas economies have deteriorated rapidly.

In this business environment, based on the A.D.W. Group's Sixth Mid-Range Business Plan (for the period from the fiscal year ended March 31, 2020 to the fiscal year ending March 31, 2022) the Group implemented various measures and set forth the basic policies of (1) developing a resilient business foundation that can generate stable revenue in a changing environment; (2) developing and digging into new business areas and exercise synergistic effects with existing businesses; and (3) building an enduring customer base premised on optimizing the customer experience. Specifically, we carried out initiatives to develop business such as moving to a holding company system (effective on April 1, 2020, following approval of a temporary general meeting of shareholders held on November 29, 2019) to establish our business base; expanding our product lineup, including initiatives with large-scale properties; began handling income-earning real estate in Hawaii as a new business area; and made Sumikawa Works Co., Ltd. a subsidiary in April 2019 to strengthen our construction and construction-related businesses.

As a result, as shown in the table below, for the fiscal year under review, the Group's consolidated sales totaled 24,687 million yen (5.0% lower than the full-year earnings forecast), EBITDA came to 1,470 million yen (10.6% over forecast), ordinary income amounted to 932 million yen (11.1% over forecast), and net income was 625 million yen (9.7% over forecast). In the fiscal year under review, the COVID-19 pandemic did not have a severe impact on the Group's business, and profit came in above our initial forecasts despite sales slightly missing plan.

We note that the main reason for the sharp year-on-year decline in profit was because from the second quarter of the previous fiscal year, we brought forward sales of real estate that were not part of the initial plan in order to offset a decline in net income due to booking 757 million yen in extraordinary losses in the first quarter (a provision to cover additional consumption taxes for previous years based on corrections to previous years issued by the Tokyo Regional Taxation Bureau). This resulted in a significant increase in EBITDA and ordinary income and created a high year-on-year hurdle.

(Unit: million yen)

	Fiscal year ended March 31, 2020 (Full-year plan)		Fiscal year ended March 31, 2019 (Results)		Fiscal year ended March 31, 2020 (Results)			
	Amount	Net sales ratio	Amount	Net sales ratio	Amount	Net sales ratio	YoY change	Percentage of full-year plan achieved
Net sales	26,000	100.0%	24,861	100.0	24,687	100.0%	99.3%	95.0%
(Property sales)	—	—	(21,879)	(88.0%)	(20,753)	(84.1%)	(94.9%)	—
(Stock)	—	—	(3,413)	(13.7%)	(4,303)	(17.4%)	(126.1%)	—
(Internal sales)	—	—	(-431)	(-1.7%)	(-369)	(-1.5%)	—	—
EBITDA	1,330	5.1%	2,324	9.3%	1,470	6.0%	63.3%	110.6%
Ordinary income	840	3.2%	1,802	7.3%	932	3.8%	51.8%	111.1%
Pre-tax income	890	3.4%	1,043	4.2%	933	3.8%	89.4%	104.9%
Net income	570	2.2%	663	2.7%	625	2.5%	94.2%	109.7%

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
Depreciation and amortization includes depreciation, software amortization, amortization of goodwill, and any other non-cash expenses.

The impact of the COVID-19 pandemic on economic and social activities, which has been uncertain so far, is expected to

manifest itself in a variety of forms. With respect to the Group's business areas, we will aim for proactive management while carefully assessing the situation, taking into account various factors such as the impact on the real estate market, the financial system, and customer's investment sentiment.

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 20,753 million yen, EBITDA was 1,859 million yen, and operating income was 1,855 million yen.

We sold 33 properties in Japan and 14 in the US. Sales fell slightly compared to the previous fiscal year, but sales per property increased by over 20% year on year to 441 million yen and we transitioned to larger properties. In Japan, sales of such large-scale properties and small-lot real estate products contributed to results, while in the US the adoption of aggressive sales policies and sales in Hawaii contributed. Profit fell sharply due to the high year-on-year comparison, which, as noted above, was due to profit in the previous fiscal year being boosted by the sale of highly profitable income properties.

Meanwhile, we acquired 25 properties in Japan and 10 in the US for a total acquisition amount of 16,934 million yen. The acquisition amount per property was 483 million yen, and we moved steadily toward larger properties in terms of acquisition area as well.

As a result, the balance of income properties was 23,118 million yen (Note 2), which was 1,888 million yen higher than the balance at the end of the previous fiscal year.

(Stock-type fee business)

Net sales were 4,303 million yen, EBITDA was 959 million yen, and operating income was 852 million yen.

Net sales were 890 million yen higher than in the previous fiscal year, with a contribution from Sumikawa Works Co., Ltd., which became a group company during the fiscal year under review (Note 3). Operating income fell by 28 million yen year on year, mainly due to an increase in personnel as an upfront investment to capture diverse customer needs beyond property management.

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 23,118 million yen does not include the estimated consumption tax provision (17 million yen) to be booked as an asset following the receipt 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 brokerage income derived from customer relations, repair work fees for managed properties, etc. is classed as "flow-type."

3. Consolidated Financial Statements

(1) Consolidated balance sheets

(Unit: Thousands of yen)

	Previous consolidated fiscal year (year ended March 31, 2019)	Current consolidated fiscal year (year ended March 31, 2020)
Assets		
Current assets		
Cash and deposits	7,105,036	8,982,634
Accounts receivable – trade	306,540	320,139
Real estate for sale	20,977,089	22,202,745
Real estate for sale in process	265,235	933,080
Other	1,048,034	1,823,752
Allowance for doubtful accounts	(1,968)	(2,177)
Total current assets	29,699,966	34,260,175
Non-current assets		
Property, plant and equipment		
Buildings	96,202	180,868
Accumulated depreciation	(69,140)	(67,079)
Buildings (net)	27,062	113,788
Vehicles	2,575	18,916
Accumulated depreciation	(2,146)	(18,033)
Vehicles (net)	428	883
Tools, furniture, and fixtures	78,411	115,458
Accumulated depreciation	(59,498)	(71,690)
Tools, furniture, and fixtures (net)	18,913	43,768
Land	–	30,587
Total property, plant and equipment	46,403	189,027
Intangible fixed assets		
Goodwill	–	71,871
Other	47,552	51,947
Total intangible fixed assets	47,552	123,819
Investments and other assets		
Investment securities	108,179	133,767
Deferred tax assets	464,009	384,725
Other	220,344	351,365
Allowance for doubtful accounts	–	(16,227)
Total investments and other assets	792,533	853,631
Total non-current assets	886,489	1,166,478
Deferred assets		
Share issuance cost	38,619	42,305
Total deferred assets	38,619	42,305
Total assets	30,625,075	35,468,960

(Unit: Thousands of yen)

	Previous consolidated fiscal year (year ended March 31, 2019)	Current consolidated fiscal year (year ended March 31, 2020)
Liabilities		
Current liabilities		
Short-term loans payable	963,200	185,000
Accounts payable – trade	562,470	797,148
Current portion of bonds	183,400	229,400
Current portion of long-term loans payable	1,934,838	2,270,801
Income taxes payable	455,013	52,818
Other	2,432,300	2,565,208
Total current liabilities	6,531,223	6,100,377
Non-current liabilities		
Bonds payable	471,600	742,200
Long-term loans payable	11,566,325	15,507,913
Other	108,032	112,518
Total non-current liabilities	12,145,958	16,362,631
Total liabilities	18,677,181	22,463,009
Net assets		
Shareholders' equity		
Capital stock	4,385,822	5,096,226
Capital surplus	4,329,396	5,035,148
Retained earnings	3,399,161	3,255,819
Treasury shares	(133,962)	(276,478)
Total shareholders' equity	11,980,417	13,110,716
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(1,359)	(3,102)
Foreign currency translation adjustments	(36,335)	(106,745)
Deferred gains (losses) on hedges	(1,143)	—
Total accumulated other comprehensive income	(38,838)	(109,847)
Subscription rights to shares	6,314	5,082
Total net assets	11,947,894	13,005,950
Total liabilities and net assets	30,625,075	35,468,960

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

Consolidated Profit and Loss Statement

(Unit: Thousands of yen)

	Previous consolidated fiscal year (April 1, 2018 - March 31, 2019)	Current consolidated fiscal year (April 1, 2019 - March 31, 2020)
Net sales	24,861,153	24,687,749
Cost of sales	19,517,652	19,875,039
Gross profit	5,343,500	4,812,710
Selling, general and administrative expenses	3,226,669	3,520,722
Operating income	2,116,831	1,291,987
Non-operating income		
Interest and dividend income	12,395	16,317
Insurance income	8,020	8,187
Other	2,691	9,144
Total non-operating income	23,106	33,649
Non-operating expenses		
Interest expenses	237,810	232,169
Borrowing fee	46,595	52,138
Foreign exchange loss	9,314	34,616
Other	43,665	73,794
Total non-operating expenses	337,386	392,720
Ordinary income	1,802,551	932,916
Extraordinary income		
Gain on sales of non-current assets	804	498
Total extraordinary income	804	498
Extraordinary loss		
Prior year consumption taxes	759,232	—
Loss on retirement of non-current assets	228	—
Total extraordinary loss	759,460	—
Net income before taxes	1,043,896	933,415
Income taxes – current	668,622	222,558
Income taxes – correction	(3,909)	(1,363)
Income taxes adjustment	(284,676)	86,904
Total income taxes	380,035	308,099
Net income	663,860	625,316
Net income attributable to owners of parent	663,860	625,316