# Summary of Earnings Report for the Fiscal Year Ended March 31, 2019

May 14, 2019

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 shareholders' meeting: June 25, 2019
Scheduled date of dividend payment: June 11, 2019
Scheduled date of filing: June 25, 2019
Additional material of financial results: Yes
Results meeting: Yes (Institutional investors and analysts)

(Millions of yen, rounded down)

## 1. Consolidated Results for the Fiscal Year Ended March 31, 2019 (April 1, 2018–March 31, 2019)

(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, 2019 | 24,861 | 11.5 | 2,116 | 74.7 | 1,802 | 94.5 | 663 | 13.6 |
| Fiscal year ended March 31, 2018 | 22,299 | 17.6 | 1,212 | 16.5 | 926 | 23.9 | 584 | 8.1 |

(Notes) Comprehensive Income: Year ended March 31, 2019 838 Million yen (120.0 %) Year ended March 31, 2018 380 Million yen ((34.1%))

| | 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, 2019 | 2.01 | 2.01 | 6.0 | 5.9 | 8.5 |
| Fiscal year ended March 31, 2018 | 1.84 | 1.84 | 7.1 | 3.3 | 5.4 |

(Notes) Investment gain or loss on equity method: March 31, 2019 — Million yen March 31, 2018 — Million yen

(Note) On July 13, 2017, A.D. Works, 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 | Shareholders' Equity ratio | Net Assets per Share |
|---|---|---|---|---|
| | ¥ millions | ¥ millions | % | Yen |
| Fiscal year ended March 31, 2019 | 30,625 | 11,947 | 39.0 | 34.51 |
| Fiscal year ended March 31, 2018 | 30,801 | 10,152 | 32.9 | 31.90 |

(Notes) Shareholders' equity: March 31, 2019 11,941 Million yen March 31, 2018 10,148 Million yen

## 2. Dividends Information

| | Dividend per Share | | | | |
|---|---|---|---|---|---|
| | 1Q | Interim | 3Q | Year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended March 31, 2018 | — | 1.65 | — | 0.35 | 2.00 |
| Fiscal year ended March 31, 2019 | — | 0.00 | — | | |
| Fiscal year ending March 31, 2019 (forecast) | | | | 0.35 | 0.35 |

(Noted) Correction to most recently announced dividend forecast: None

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 2018 included a gratitude dividend of ¥1.65 per share.

## 3. Consolidated Business Plan for Fiscal Year Ending March 31, 2020

The A.D.W. Group announces its business targets for each consolidated fiscal year in the form of a "business plan." "Business plans" are targets for our business and are different from "forecasts and predictions".

The anticipated progress made in achieving earnings forecasts in each quarter is updated and disclosed in a timely manner as "forecasts," and are based on information that the Group believes to be highly accurate and rational at that point in time.

(%: comparison with the previous period)

| | Net sales | | EBITDA | | Ordinary Income | | Net income before taxes | | Net income attributable to owners of parent | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Full year | 26,000 | 4.6 | 1,330 | (42.8) | 840 | (53.4) | 890 | (14.7) | 570 | (14.1) |

## 1. Overview of Business Results

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

During the consolidated fiscal year under review, the Japan economy continued to make a gradual recovery on the back of higher corporate earnings, a stronger employment environment and improved consumer spending. However, the overseas environment became increasingly uncertain toward the end of the fiscal year due to the impact of factors such as sluggish exports attributable to a slowdown in overseas economies. Even in the US, where the A.D.W. Group has an operating base, the economy continued to recover steadily, but conditions still requires careful monitoring, such as developments with trade conflicts and the outlook for the Chinese economy, economic and policy trends in key foreign countries, and the impact of fluctuations in financial and capital markets.

As for the business environment for properties in the Tokyo metropolitan district, which is the A.D.W. Group's main operating area, inventory numbers and the number of contracts executed were both high for residential properties, while contract prices were on the decline, which makes for an outlook remains uncertain. However, office demand remains robust and rent levels continue to climb, ensuring solid conditions. At the same time, in the Los Angeles area in the US, which is the base for our overseas operations, transaction contract prices for pre-owned residences remain high, and inventory remained stable.

Under these business conditions, based on the A.D.W. 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 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 that will become a new pillar of future earnings," and "restructuring capabilities so that they can support the larger scale of our business," and it has worked on a variety of measures to achieve these goals.

The Company had several successes in the consolidated fiscal year under review, which was the last year of the Group's Fifth Mid-Range Business Plan. Business in the US, which is based in Los Angeles, remained solid, and consolidated sales grew to 24.1% (18.9% in the previous consolidated fiscal year). In addition, sales of ARISTO Kyoto, the Company's first small-lot real estate product, were completed in December 2018, contributing to the diversification of products and expansion of the customer base. Moreover, the Company carried out its 21st allotment of subscription rights to shares in August 2018 to raise capital to fund its future growth, and succeeded in raising 978 million yen.

As a result, as noted below, consolidated sales totaled 24,861 million yen (3.6% higher than the full-year earnings forecast), ordinary income amounted to 1,802 million yen (80.3% over forecast), and net income was 663 million yen (1.4% over forecast), with both sales and income reaching the initial forecasts.

(Unit: million yen)

| | Fiscal year ended March 31, 2019 (Full-year plan) | | Fiscal year ended March 31, 2018 (Actual results) | | Fiscal year ended March 31, 2019 (Actual results) | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Net sales ratio | Amount | Net sales ratio | Amount | Net sales ratio | YoY change | Percentage of full-year plan achieved |
| Net sales | 24,000 | 100.0% | 22,299 | 100.0% | 24,861 | 100.0% | 111.5% | 103.6% |
| (Property sales) | — | — | (19,827) | (88.9%) | (21,879) | (88.0%) | (110.3%) | — |
| (Stock) | — | — | (2,829) | (12.7%) | (3,413) | (13.7%) | (120.6%) | — |
| (Internal sales) | — | — | (-357) | (-1.6%) | (-431) | (-1.7%) | — | — |
| EBITDA | 1,600 | 6.7% | 1,348 | 6.0% | 2,324 | 9.3% | 172.4% | 145.3% |
| Ordinary income | 1,000 | 4.2% | 926 | 4.2% | 1,802 | 7.3% | 194.5% | 180.3% |
| Pre-tax income | 1,000 | 4.2% | 924 | 4.1% | 1,043 | 4.2% | 113.0% | 104.4% |
| Net income | 660 | 2.8% | 584 | 2.6% | 663 | 2.7% | 113.6% | 100.6% |

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.

On July 31, 2018, the Group received a notice of correction from the Tokyo Regional Taxation Bureau requiring that the Group pay additional consumption taxes and an additional charge. As a result, the Group decided to post a 757 million yen extraordinary loss in the first quarter of the consolidated fiscal year to cover the additional consumption taxes for previous years. To address this and ensure that the consolidated earnings forecasts for fiscal 2019 were achieved, the Group flexibly replaced its sales line-up in the second quarter, and has been actively taking marketing measures anticipating changes in market conditions since the third quarter. This led to the aforementioned results.

On December 14, 2018, the Company filed a suit against the Tokyo Regional Taxation Bureau requesting that the penalty taxes be expunged.

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 21,879 million yen, EBITDA was 2,558 million yen, and operating income was 2,548 million yen.

The A.D.W. Group’s competitive edge is its ability to acquire income properties using our original knowhow and offer one-stop service including renovation, property management, and asset management advice, and based on customer trust resulting from such service, we sold 41 properties in Japan and 20 in the United States.

When are cautious in acquiring income properties, making sure to assess changes in market conditions and carefully focus on the profitability of each property. As a result, we completed acquisitions of 35 properties in Japan and 19 properties in the United States, recording a total acquisition amount of 14,389 million yen.

The balance of income properties, which will be a prime source of future profits and is also part of the source of revenue for the stock-type fee business, was 21,229 million yen, which was 1,146 million yen lower than the balance at the end of the previous fiscal year.

(Stock-type fee business)

Net sales were 3,413 million yen, EBITDA was 1,015 million yen, and operating income was 881 million yen.

The average balance of income properties during the fiscal year under review was 22,618 million yen, up from 19,380 million yen in the previous fiscal year. In addition, there has been steady growth in after-sales property management contracts for income properties, and the number of income properties under management in Japan at the end of the fiscal year under review was 4,746 (versus 4,461 at the end of the previous fiscal year). Together with increased occupancy rates due to detailed business operation improvement, rental revenue and property management revenue both increased, and the Group was able to strengthen its base of stable earnings.

Furthermore, due to increased contract sizes and improved customer relations, there has been an increase in opportunities to receive orders for transaction support for such services as maintenance and repairs or replacement purchases and additional purchases for income properties for which we make contracts, and in the fiscal year under review, construction revenue and transaction support fees thus increased.

(Note) 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) Future outlook

The Group is currently establishing a three-year plan, the Sixth Mid-Range Business Plan (for the period from the fiscal year ending March 31, 2020 to the fiscal year ending March 31, 2022), which will begin in the fiscal year ending in March 31, 2020. We plan to announce the full plan, which will be based on the following three basic guidelines, in the near future:

I. Evolve a resilient business foundation that can generate stable revenue even in a changing environment

II. Develop and cultivate new business areas and bring out synergistic effects with existing business

III. Build a durable customer foundation that rests on maximizing the value of the customer experience

(a) Management indicators for the next fiscal year (fiscal year ending in March 31, 2020)

Our management indicators for the fiscal year ending in March 31, 2020 are net sales, EBITDA, ordinary income, and net income before income taxes.

Consolidated earnings forecasts for the fiscal year ending in March 31, 2020 are discussed below.

In the fiscal year ended in March 31, 2019, we posted a 757 million yen extraordinary loss in the first quarter of the consolidated fiscal year to cover the additional consumption taxes for previous years. This exceeded the forecast for consolidated net income in the fiscal year ended in March 31, 2019. Having made the management decision that achieving management indicators is the Group's highest priority, the Group sold income properties with high profit margins that had been planned for future sale earlier than scheduled in order to compensate for the impact of lower income caused by this extraordinary loss. This significantly added to ordinary income and allowed the Group to achieve its earnings forecasts announced at the start of the fiscal year.

However, the Group took a cautious stance on its acquisitions in light of changes in the real estate market, and although we have continued to strategically expand our balance of income properties, the balance at the end of the fiscal year fell far short of the amount initially forecasted and also undercut the balance at the start of the fiscal year.

The balance of income properties at the end of the fiscal year represents the source of revenue for subsequent fiscal years. Accordingly, the Group's main priority in this next fiscal year will be to rebuild its portfolio of income properties in order to promptly resolve this reduction in the balance of income properties and put income back on an upward trajectory. In sum, the real estate market is increasingly uncertain, and even more than securing short-term profits, the Group intends to put greater efforts into acquiring and building up a balance of prime properties with high potential from a medium- and long-term perspective.

Given that the scale of the Group's business overall, including its foreign businesses, continues to steadily grow, we expect sales to increase.

As a result, in the next fiscal year we forecast higher sales and lower income compared to the fiscal year ended in March 31, 2019, as shown below:

(Unit: million yen)

| | Year ended March 31, 2019 (Results) | Year ending March 31, 2020 (Plan) |
|---|---|---|
| Net sales | 24,861 | 26,000 |
| EBITDA | 2,324 | 1,330 |
| Ordinary income | 1,802 | 840 |
| Pre-tax income | 1,043 | 890 |

(Notes) The business plans released by the Company represent targets that it aims to achieve in its business, and they differ from "earnings forecasts" and "earnings predictions" that are calculated rationally based on so-called highly reliable information. Furthermore, whenever necessary, based on the entire Group's highly reliable information and information deemed rational at the time, the company updates and discloses the progress forecast for each quarter.

b) Policies for the next fiscal year (ending March 31, 2020)

In the next fiscal year, the Company plans to focus on the measures outlined below in (i), (ii), and (iii).

(i) Expand income property portfolio and strengthen product planning capacity

In the fiscal year ended in March 31, 2019, the year-end balance of income properties, which the Company continues to strategically expand, fell short of the balance at the beginning of the fiscal year. This was because the Company sold income properties ahead of schedule in the second quarter, even though this was unplanned, in order to compensate for the extraordinary loss posted in the first quarter for the reserves equivalent to consumption taxes for previous years. In addition, the Company revised sales prices and prioritized early sales to adapt to banks' hardening stances on real estate loans, but the Company was cautious in acquiring properties due to the impact of changes in the real estate market.

Accordingly, in the fiscal year ending March 31, 2020, the Company must make reinforcing its business foundation, by aggressively expanding its balance of prime income properties, its top priority in order to achieve the Sixth Mid-Range Business Plan.

To do so, the Company will work to extend its business area (regional hub cities, in addition to the Tokyo metropolitan area and the Kansai area), product variation (offices and commercial facilities, in addition to residential properties), size of properties handled (from small-scale to medium- and large-scale) with a flexible perspective to build up its income property portfolio. We believe it is important to strengthen our product planning strengths in tandem with this, and will set up dedicated organizations to actively work on this.

(ii) Search for new products and new areas to establish a new profit base

Establishing a new profit base has long been a concern for the Company, but in the fiscal year ending March 31, 2020, the Company will move ahead effectively in the following areas.

First, in order to meet the needs of wealthy clients, the Company will develop investment products in a format different to the income property model. The Company's Overseas Business Division has already started on a feasibility study to this end. Since the US income property business enjoys relatively stable market conditions, the environment is conducive to carrying out a feasibility study on new businesses in tandem with the existing income property business, and the Company believes that the results can be applied to businesses in Japan as well.

In addition to this kind of development by the Company, we believe we need to proactively consider utilizing business tie-ups, capital tie-ups, and M&A in order to incorporate businesses that are ancillary to the real estate business and businesses targeting wealthy clients that go beyond a specific industry and sector into the Group's business portfolio.

(iii) Realizing the fee business by expanding and augmenting the client base

Expanding and augmenting our customer base and reinforcing customer relationship management (CRM) is essential to strengthen our business targeting wealthy clients. Up until now, we have continued to strengthen our relationships with wealthy clients by operating the owner's group Royaltorch, but in the fiscal year ending March 31, 2020, we will actively consider adding levels to the club structure and offering multichannel communication in order to improve these relationships.

Based on this augmented and expanded foundation, the Company will identify client needs and seeds of ideas accurately and promptly, and offer existing real estate services and new asset-related services to meet these needs, thus enabling the Company to expand its fee business. To this end, the Company will strive to reach a higher grade by reinforcing its human resource capacity and organizational capacity to provide accurate consultation services to wealthy clients.

c) Basic policy on profit distribution, and dividend payment in the fiscal year under review and the next fiscal year

Based on a medium-term perspective, the A.D.W. Group has adopted the basic policy of ensuring internal reserves to prepare for future business development and then, depending on earnings, making dividend payments.

Dividends for the fiscal year ending March 31, 2020 will be considered in the Sixth Mid-Range Business Plan.

## 3. Consolidated Financial Statements

### (1) Consolidated balance sheets

(Unit: Thousand yen)

| | Previous consolidated fiscal year (year ended March 31, 2018) | Current consolidated fiscal year (year ended March 31, 2019) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and savings | 7,169,631 | 7,105,036 |
| Accounts receivable | 117,013 | 306,540 |
| Revenue-generating real estate held for sale | 21,899,672 | 20,977,089 |
| Real estate for sale in process | 476,536 | 265,235 |
| Other | 489,131 | 1,048,034 |
| Allowance for doubtful accounts | (116) | (1,968) |
| Total current assets | 30,151,868 | 29,699,966 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings | 94,461 | 96,202 |
| Accumulated depreciation | (46,090) | (69,140) |
| Buildings (net) | 48,371 | 27,062 |
| Vehicles | 4,965 | 2,575 |
| Accumulated depreciation | (3,545) | (2,146) |
| Vehicles (net) | 1,419 | 428 |
| Tools, furniture, and fixtures | 74,489 | 78,411 |
| Accumulated depreciation | (46,718) | (59,498) |
| Tools, furniture, and fixtures (net) | 27,771 | 18,913 |
| Total tangible fixed assets | 77,562 | 46,403 |
| Intangible fixed assets | | |
| Other | 65,957 | 47,552 |
| Total intangible fixed assets | 65,957 | 47,552 |
| Investments and other assets | | |
| Investment securities | 103,581 | 108,179 |
| Deferred tax assets | 175,734 | 464,009 |
| Other | 159,180 | 220,344 |
| Total investments and other assets | 438,497 | 792,533 |
| Total fixed assets | 582,017 | 886,489 |
| Deferred assets | | |
| Share issuance cost | 67,518 | 38,619 |
| Total deferred assets | 67,518 | 38,619 |
| Total assets | 30,801,404 | 30,625,075 |

(Unit: Thousand yen)

| | Previous consolidated fiscal year (year ended March 31, 2018) | Current consolidated fiscal year (year ended March 31, 2019) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Short-term loans payable | 2,357,500 | 963,200 |
| Accounts payable | 711,085 | 562,470 |
| Current portion of bonds payment | 958,250 | 183,400 |
| Current portion of long-term loans payable | 2,579,349 | 1,934,838 |
| Corporate tax payable | 268,532 | 455,013 |
| Other | 1,490,764 | 2,429,465 |
| Total current liabilities | 8,365,483 | 6,531,223 |
| Fixed liabilities | | |
| Corporate bonds | 555,000 | 471,600 |
| Long-term loans payable | 11,683,769 | 11,566,325 |
| Other | 45,071 | 108,032 |
| Total fixed liabilities | 12,283,841 | 12,145,958 |
| Total liabilities | 20,649,324 | 18,677,181 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 3,891,078 | 4,385,822 |
| Capital surplus | 3,834,083 | 4,329,396 |
| Retained earnings | 2,848,332 | 3,399,161 |
| Treasury stock | (211,974) | (133,962) |
| Total shareholders' equity | 10,361,520 | 11,980,417 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | (4,403) | (1,359) |
| Foreign currency translation adjustments | (201,394) | (36,335) |
| Deferred gains (losses) on hedges | (7,184) | (1,143) |
| Total accumulated other comprehensive income | (212,981) | (38,838) |
| Subscription rights to shares | 3,540 | 6,314 |
| Total net assets | 10,152,079 | 11,947,894 |
| Total liabilities and net assets | 30,801,404 | 30,625,075 |

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

Consolidated Profit and Loss Statement

(Unit: Thousand yen)

| | Previous consolidated fiscal year (year ended March 31, 2018) | Current consolidated fiscal year (year ended March 31, 2019) |
|---|---|---|
| Sales | 22,299,226 | 24,861,153 |
| Cost of sales | 18,300,934 | 19,517,652 |
| Gross profit on sales | 3,998,292 | 5,343,500 |
| Sales, general and administrative expenses | 2,786,273 | 3,226,669 |
| Operating income | 1,212,018 | 2,116,831 |
| Non-operating income | | |
| Interest and dividends income | 111 | 12,395 |
| Insurance received | 4,788 | 8,020 |
| Gain on sales of investment securities | 868 | — |
| Other | 38 | 2,691 |
| Total non-operating income | 5,806 | 23,106 |
| Non-operating expenses | | |
| Interest paid | 206,621 | 237,810 |
| Borrowing fee | 28,480 | 46,595 |
| Foreign exchange loss | 22,460 | 9,314 |
| Other | 33,586 | 43,665 |
| Total non-operating expenses | 291,149 | 337,386 |
| Ordinary income | 926,675 | 1,802,551 |
| Extraordinary income | | |
| Gain on sales of non-current assets | — | 804 |
| Total extraordinary income | — | 804 |
| Extraordinary losses | | |
| Prior year consumption taxes | — | 759,232 |
| Loss on retirement of non-current assets | 2,570 | 228 |
| Total extraordinary losses | 2,570 | 759,460 |
| Net income before taxes | 924,105 | 1,043,896 |
| Income taxes – current | 356,444 | 668,622 |
| Income taxes – correction | — | (3,909) |
| Income taxes adjustment | (16,556) | (284,676) |
| Total income taxes | 339,888 | 380,035 |
| Net income | 584,216 | 663,860 |
| Net income attributable to owners of parent | 584,216 | 663,860 |

Consolidated Comprehensive Income Statement

(Unit: Thousand yen)

| | Previous consolidated fiscal year (year ended March 31, 2018) | Current consolidated fiscal year (year ended March 31, 2019) |
|---|---|---|
| Net income before minority interests | 584,216 | 663,860 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (3,678) | 3,043 |
| Foreign currency translation adjustments | (197,409) | 165,058 |
| Deferred gains (losses) on hedges | (2,175) | 6,040 |
| Total other comprehensive income | (203,264) | 174,143 |
| Comprehensive income | 380,952 | 838,003 |
| (attributable to) | | |
| Owners of the parent company | 380,952 | 838,003 |
| Minority interests | — | — |

No relevant items.