

Summary of Earnings Report for First Quarter of Year Ending December 31, 2022

May 13, 2022

Name of listed company: A.D.Works Group 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, Managing Director and CFO TEL: +81-(0)3-5251-7641
 Scheduled date of filing: May 13, 2022 Scheduled date of dividend payment: —
 Additional material of financial results: Yes
 Result meeting: No

(Millions of yen, rounded down)

1. Consolidated Results for the First Quarter of the Fiscal Year Ending December 31, 2022 (January 1, 2022– March 31, 2022)

(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 December 31, 2022	6,413	2.4	219	(21.7)	135	(37.8)	87	(47.2)
First quarter, year ended December 31, 2021	6,262	—	280	—	218	—	165	—

(Notes) 1. Comprehensive Income: 2022 1Q 310 million yen ((24.0%)) 2021 1Q 409 million yen (—%)

2. The year-on-year comparison between the first quarter of the fiscal year ended on December 31, 2020 and the first quarter of the fiscal year ended on December 31, 2021 is not presented since the fiscal year ended on December 31, 2020 was a nine-month fiscal period (April 1 to December 31, 2020).

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
First quarter, year ending December 31, 2022	1.86	—
First quarter, year ended December 31, 2021	4.08	4.04

(Note) Net income per share on a diluted basis for the first quarter of the fiscal year ending on December 31, 2022 is not presented because there are no latent shares.

(2) Consolidated financial conditions

	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
First quarter, year ending December 31, 2022	42,304	15,034	35.4
Fiscal year ended December 31, 2021	42,047	14,817	35.1

(Notes) Equity: 2022 1Q 14,988 million yen 2021 14,776 million yen

2. Dividends Information

	Dividend per Share				
	1Q	Interim	3Q	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2021	—	0.00	—	3.50	3.50
Fiscal year ending December 31, 2022	—				
Fiscal year ending December 31, 2022 (forecast)		0.00	—	3.50	3.50

(Note) 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, 2022 (January 1, 2022–December 31, 2022)

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 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		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	30,000	20.2	1,300	21.1	800	23.0	800	23.0	450	44.1

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

* Notes

(1) Important changes in subsidiary during the consolidated fiscal year under review : None

(Changes in specified subsidiaries affecting the scope of consolidation)

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. : Yes

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

Q1 FY2022	47,196,864 shares	Fiscal year ended on December 31, 2021	47,111,064 shares
Q1 FY2022	230,740 shares	Fiscal year ended on December 31, 2021	403,953 shares
Q1 FY2022	46,828,547 shares	Q1 FY2021	40,431,771 shares

2. Number of treasury stock at end of period

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

* 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]

Index

1. Quarterly Consolidated Financial Statements	1
(1) Quarterly Consolidated balance sheets.....	1
(2) Quarterly Consolidated Profit and Loss Statement, and Consolidated Comprehensive Income Statement	3
(3) Notes for the quarterly consolidated financial statements	5
(Notes on the going concern assumption).....	5
(Notes on significant changes in amount of shareholders' equity).....	5
(Application of specific accounting methods when preparing quarterly consolidated financial statements).....	5
(Changes in accounting policies).....	5

1. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated balance sheets

(Unit: Thousands of yen)

	As of December 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	8,433,610	7,089,473
Accounts receivable - trade	197,404	130,269
Real estate for sale	25,026,039	27,478,834
Real estate for sale in process	3,900,287	4,061,185
Operating investments in capital	1,053,066	966
Other	2,170,384	2,224,875
Allowance for doubtful accounts	(2,162)	(1,801)
Total current assets	40,778,629	40,983,801
Non-current assets		
Property, plant and equipment		
Other, net	182,335	177,872
Total property, plant and equipment	182,335	177,872
Intangible assets		
Goodwill	42,277	38,049
Other	38,639	46,516
Total intangible assets	80,917	84,565
Investments and other assets		
Investment securities	366,418	423,014
Deferred tax assets	378,887	387,372
Other	226,636	219,613
Total investments and other assets	971,942	1,029,999
Total non-current assets	1,235,195	1,292,437
Deferred assets		
Share issuance cost	8,183	4,697
Establishment costs	25,314	23,371
Total deferred assets	33,498	28,068
Total assets	42,047,323	42,304,308
Liabilities		
Current liabilities		
Accounts payable - trade	574,730	696,778
Short-term loans payable	253,046	194,000
Current portion of bonds	442,500	403,000
Current portion of long-term loans payable	1,490,761	1,882,970
Income taxes payable	208,232	56,979
Crowd funding and other deposits received	392,007	491,781
Provision	–	79,135
Other	2,887,915	2,692,306
Total current liabilities	6,249,193	6,496,951
Non-current liabilities		
Bonds payable	185,000	120,000
Long-term loans payable	20,707,687	20,564,252
Other	87,726	88,759
Total non-current liabilities	20,980,413	20,773,011
Total liabilities	27,229,607	27,269,963

(Unit: Thousands of yen)

	As of December 31, 2021	As of March 31, 2022
Net assets		
Shareholders' equity		
Capital stock	6,084,269	6,090,189
Capital surplus	5,100,853	5,157,160
Retained earnings	3,589,513	3,512,280
Treasury shares	(50,264)	(46,767)
Total shareholders' equity	14,724,370	14,712,862
Accumulated other comprehensive income		
Foreign currency translation adjustments	57,548	276,872
Valuation difference on available-for-sale securities	(5,270)	(956)
Total accumulated other comprehensive income	52,278	275,916
Subscription rights to shares	11,477	14,738
Non-controlling interests	29,589	30,827
Total net assets	14,817,716	15,034,345
Total liabilities and net assets	42,047,323	42,304,308

(2) Quarterly Consolidated Profit and Loss Statement, and Consolidated Comprehensive Income Statement
 Consolidated Profit and Loss Statement
 First quarter of consolidated fiscal year

(Unit: Thousands of yen)

	Previous consolidated first quarter (January 1, 2021 – March 31, 2021)	Current consolidated first quarter (January 1, 2022 - March 31, 2022)
Net sales	6,262,068	6,413,892
Cost of sales	5,157,571	5,269,829
Gross profit	1,104,497	1,144,063
Selling, general and administrative expenses	824,193	924,479
Operating income	280,304	219,583
Non-operating income		
Interest and dividend income	2,478	2,460
Foreign exchange gains	2,874	1,618
Income on difference to simplified tax such as consumption tax, etc.	4,494	–
Other	2,798	224
Total non-operating income	12,647	4,302
Non-operating expenses		
Interest expenses	57,202	71,032
Borrowing fee	10,246	5,780
Amortization of establishment costs	1,943	1,943
Other	5,394	9,534
Total non-operating expenses	74,787	88,292
Ordinary income	218,163	135,594
Quarterly net income	218,163	135,594
Income taxes - current	52,938	48,363
Total income taxes	52,938	48,363
Quarterly net income	165,224	87,230
Quarterly net income attributable to non-controlling interests	–	–
Net income attributable to owners of parent	165,224	87,230

Consolidated Comprehensive Income Statement

First quarter of consolidated fiscal year

(Unit: Thousands of yen)

	Previous consolidated first quarter (January 1, 2021 – March 31, 2021)	Current consolidated first quarter (January 1, 2022 - March 31, 2022)
Quarterly net income	165,224	87,230
Other comprehensive income		
Valuation difference on available-for-sale securities	9,030	4,314
Foreign currency translation adjustments	235,028	219,323
Total other comprehensive income	244,058	223,638
Quarterly comprehensive income	409,283	310,869
(Breakdown)		
Comprehensive income attributable to owners of parent	409,283	310,869
Comprehensive income attributable to non-controlling interests	–	–

(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 first 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.

(Changes in accounting policies)

(Application of accounting standard for revenue recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereinafter "Accounting Standard for Revenue Recognition") and related implementation guidance from the beginning of the current first quarter of the consolidated accounting period. Accordingly, revenue is recognized at a point in time when control of promised goods or services is transferred to the customers, at the amount that is expected to be received in exchange for the goods or services.

As its main business, the Group operates an income property sales business and a stock-type fee business. The revenue generated by these businesses is posted in line with contracts with customers, and the promised compensation does not include any important financial component.

The income property sales business is administered by A.D.Works Co., Ltd. in Japan and by ADW-No.1 LLC and ADW Hawaii LLC, among others, in the US. This business acquires income properties through its own sales route and takes steps to raise their value, such as improving the management conditions of the buildings, changing their use, replacing tenants, and making large-scale repairs and renovations. The properties are then sold to investors (primarily wealthy individuals), real estate owners, corporations, institutional investors and others. This business has an obligation to carry out operations in which income properties whose value has been raised are then transferred, based on real estate sales agreements with customers. These performance obligations are fulfilled when the property is transferred, and revenue is posted at the point of this transfer. In some real estate sales agreements, the Group is required to guarantee the cost of repairs in the event that non-conformity with the contract (defects) are found in the transferred property or the cost of work not completed when the property is transferred. The performance obligation is then fulfilled when the repair or other work is actually done or the guarantee period ends, at which point the revenue is posted.

The stock-type fee business is carried out in Japan by A.D.Works Co., Ltd., A.D.Partners Co., Ltd., A.D.Designbuild Co., Ltd. and Sumikawa Works Co., Ltd, and in the US by ADW Management USA, Inc. and ADW Lending LLC. This business is primarily concerned with property management for properties whose management Group companies are entrusted with. In property management, the Group manages revenue and expenditures such as tenant rent and deposits, handles tenant move-ins and departures, etc., and sends the client the rent, etc. received from tenants less the management fees, based on a lease agreement contract with the client. These obligations are fulfilled when the money is sent to the client, and revenue is recorded when this money is sent. Alternative treatment is used in the case of construction contracts with extremely short durations from the transaction start date stated in the contract to the estimated date on which the performance obligation will be fully met, with the revenue recognized when the performance obligation is fully met. In the case of construction contracts whose performance obligation is fulfilled over a certain period of time, in the event that the progress made in fulfilling the obligation can be rationally estimated, revenue is recognized over a certain period of time. In the event that the progress made in fulfilling the obligation

cannot be rationally estimated but the expenses incurred can be expected to be recovered, the revenue is recognized using the cost recovery method. As a result, compared to the conventional accounting method, net sales and the cost of sales increased 94,052,000 yen in the first quarter of this consolidated fiscal year, but there was no impact on operating income, ordinary income or net income before taxes. There was also no impact on the balance of retained earnings at the beginning of this fiscal year.

The Company applies the Revenue Recognition Accounting Standard in accordance with the transitional handling stipulated in the proviso of Paragraph 84 of the Standard. The Company adds or subtracts the amount of the cumulative effects to or from retained earnings at the beginning of the first quarter in the event that the new accounting policies are applied retroactively to periods before the beginning of the first quarter. The Company began applying the new accounting policies to balances at the start of the first quarter. However, the Company applied the procedure provided for in Paragraph 86 of the Revenue Recognition Accounting Standards and did not retroactively apply the new accounting policy to contracts under which almost all revenue had been recognized before the beginning of the first quarter in accordance with the procedure before the application of the new accounting policy.

As a result, there is no impact on the balance of retained earnings at the beginning of the first quarter.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company began applying the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 issued on July 4, 2019, hereinafter the “Fair Value Measurement Accounting Standard”) and related measures at the beginning of the first quarter. Accordingly, the Company will apply the new accounting policies prescribed in the Fair Value Measurement Accounting Standard and related measures in the future in accordance with the transitional handling stipulated in Section 19 of the same standard and Section 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10 issued on July 4, 2019). Application of this standard has no impact on quarterly consolidated financial statements.