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

October 23, 2017

Name of listed company: A.D.Works, Ltd. Listed stock exchange: Tokyo Stock Exchange

Code: 3250 URL http://www.re-adworks.com/

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Additional material of financial result : Yes

Result meeting : Yes (for institutional investors and analysts)

(Millions of yen, rounded down)

1. Consolidated Results for the First Half of the Fiscal Year Ending March 31, 2018 (April 1, 2017–September 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 half, year ending March 31, 2018	12,189	28.9	753	46.5	616	75.9	383	38.1
First half, year ended March 31, 2017	9,459	20.0	514	1.8	350	(14.8)	277	5.3

(Notes) Comprehensive Income: 2018 2Q 404 million yen (111.6 %) 2017 2Q 191 million yen ((27.4 %))

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
First half, year ending March 31, 2018	1.20	1.20
First half, year ended March 31, 2017	0.88	0.88

(Note) The Company allocated stock acquisition rights based on its rights offering (non-commitment-type/non-discount type exercise price) carried out on July 13, 2017, and has issued new shares following the exercise of stock acquisition rights. The Company has calculated the net income per share and fully diluted net income per share on the assumption that payment was made based on the rights offering at the start of the previous consolidated fiscal year.

(2) Consolidated financial conditions

	Total Assets	Net Assets	Shareholders' Equity Ratio
	Million yen	Million yen	%
First half, year ending March 31, 2018	27,672	10,647	38.5
End of fiscal year ended March 31, 2017	25,832	6,415	24.7

(Notes) Shareholders' equity: 2018 2Q 10,644 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 ending March 31, 2018	—	1.65			
Fiscal year ending March 31, 2018 (forecast)			—	—	—

(Notes)
1. Correction to most recently announced dividend forecast: None
2. Breakdown of dividends for end of first half of fiscal year ending in March 2018
   Commemorative dividend as thanks for capital raising through past three rights offering: 1.65 yen
3. 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 half of this consolidated fiscal year (hereafter, "the first half"), the employment and income environment improved in Japan, and the gradual economic recovery continued. In the US, where the Group is based, personal spending, capital investment and employment indicators increased, and the economy continues to expand.

In the business environment surrounding the A.D.W. Group, the number of contracts completed for income property, which are transactions involving an entire building, began to decline over the same period in the previous year, but inventory continues to exceed levels in the previous year. The Group carried out its business activities while carefully monitoring market trends.

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.

The Company carried out a non-commitment-type rights offering (non-discount-type exercise price) during the period from July 12 to September 13, 2017 to raise growth money to achieve the Group's Fifth Mid-Range Business Plan. This succeeded in raising 3,888 million yen. A proposal to pay the first interim dividend as a way of expressing appreciation (1.65 yen per share) was made at the 91st General Shareholders Meeting, and was approved. With the aim of strengthening relationships with shareholders, the A.D. Works Shareholder Club was formed, and about 2,000 people had already been registered as of the end of the second quarter.

Construction began on the AD-O Shibuya Dogenzaka office building, which is the Company's first independent development, in July 2016, and was completed as planned on September 29, 2017.

In the first half, business in the US, based in Los Angeles, remained solid, and recorded sales of 3,026 million yen, accounting for 24.8% of consolidated sales.

The business results for the first half are as shown in the table below. The Company had achieved 60.9% of its full-year forecast for sales and 68.5% of the full-year forecast for ordinary income as of the first half. Other indicators were also steady.

(Units: Millions of yen)

	Fiscal year ending March 31, 2018 (full-year plan)		First half, year ended March 31, 2017 (results)		First half, year ending March 31, 2018 (results)			
	Amount	Ratio	Amount	Ratio	Amount	Ratio	YoY	Full-year plan progress
Sales	20,000	100.0%	9,459	100.0%	12,189	100.0%	＋28.9%	60.9%
(Property sales)	—	—	(8,584)	(90.8%)	(11,070)	(90.8%)	(+29.0%)	—
(Stock)	—	—	(993)	(10.5%)	(1,301)	(10.7%)	(+31.0%)	—
(Internal sales)	—	—	(-118)	(-1.3%)	(-182)	(-1.5%)	—	—
EBITDA	1,400	7.0%	637	6.7%	812	6.7%	＋27.4%	58.0%
Ordinary income	900	4.5%	350	3.7%	616	5.1%	＋75.9%	68.5%
Pre-tax income	900	4.5%	437	4.6%	616	5.1%	＋40.9%	68.5%
Net income	580	2.9%	277	2.9%	383	3.1%	＋38.1%	66.0%

Note 1: "Property sales," "Stock," "Pre-tax income," and "Net income" are the abbreviations for "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 include 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 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 extraordinary gains and losses.

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)

Sales were 11,070 million yen, EBITDA was 865 million yen and operating income was 857 million yen, generally in line with initial forecasts. The balance of income properties, which will be a prime source of future profits, was 17,254 million yen, versus 20,318 million yen at the end of the previous fiscal year.

Clients put their trust in our one-stop service, encompassing services from renovation to property management, and we sold 9 properties in Japan and 7 properties in the United States. Sales progress in the US has been particularly rapid, contributing to revenue in the first half.

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 11 properties in Japan and 6 properties in the United States, recording a total acquisition amount of 3,351 million yen.

Since sales progressed faster than acquisitions in the first half, the balance of income properties declined over the end of the previous fiscal year to 17,254 million.

(Stock-type fee business)

Sales were 1,301 million yen, EBIDTA was 488 million yen and operating income was 458 million yen. Rental income increased as the Group's assets were built up. Sales of transaction support also increased in the first half, contributing to earnings.

The balance of income properties during the fiscal year stood at 16,768 million yen in same period in the previous fiscal year (first half of previous fiscal year), and increased to 18,377 million yen in the first half of this fiscal year. Our business of contracting property management for income properties after they are sold remains solid, and at the end of the first half, 4,342 properties were under management (4,157 at the end of the previous fiscal year). Due to these factors, rental income and property management income increased, reinforcing the stable revenue base.

(3) Forecast for the next fiscal year

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

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

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

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

Ⅳ. Restructuring of capabilities

Consolidated ROE (end of fiscal year) had not been finalized in the consolidated earnings forecast for the fiscal year ending in March 2018 in the news release issued on May 11, 2017, because the amount of capital raised through the non-commitment rights offering (non-discount-type exercise price) held from July 13 to September 12, 2017, was not known at that point. However, 3,888 million yen was raised in the rights offering, enabling the Company to set its forecast for consolidated ROE (end of fiscal year) for the fiscal year ending in March 2018.

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

(Units: Millions of 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%	5.6%

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 that 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. Consolidated ROE (end of year) is expected to decline in the fiscal year ending in March 2018 since year-end shareholders' equity is expected to increase significantly due to the rights offering.

2. Consolidated Financial Statements

(1) Consolidated balance sheets

(Units: Thousands of yen)

	Previous consolidated fiscal year (year ended March 31, 2017)	Current consolidated first half (September 30, 2017)
Assets		
Current assets		
Cash and deposits	4,425,499	9,077,452
Accounts receivable - trade	110,053	112,700
Real estate for sale	17,490,706	17,079,227
Real estate for sale in process	1,594,068	175,386
Other	523,682	681,399
Allowance for doubtful accounts	(998)	(225)
Total current assets	24,143,012	27,125,940
Non-current assets		
Property, plant and equipment		
Land	638,283	—
Other, net	684,711	85,469
Total property, plant and equipment	1,322,995	85,469
Intangible assets		
Other	84,867	76,745
Total intangible assets	84,867	76,745
Investments and other assets		
Investment securities	109,334	109,857
Other	172,516	194,001
Total investments and other assets	281,850	303,859
Total non-current assets	1,689,712	466,073
Deferred assets		
Share issuance cost	-	80,910
Total deferred assets	-	80,910
Total assets	25,832,725	27,672,924
Liabilities		
Current liabilities		
Accounts payable - trade	660,311	854,255
Short-term loans payable	2,915,915	1,348,000
Current portion of bonds	189,500	982,000
Current portion of long-term loans payable	1,062,010	2,137,790
Income taxes payable	164,912	155,524
Provision	30,616	165,375
Other	1,307,790	1,223,423
Total current liabilities	6,331,057	6,866,370
Non-current liabilities		
Bonds payable	1,038,250	666,000
Long-term loans payable	12,000,318	9,452,171
Other	47,939	40,537
Total non-current liabilities	13,086,508	10,158,709
Total liabilities	19,417,565	17,025,079
Net assets		
Shareholders' equity		
Capital stock	1,944,554	3,889,472
Capital surplus	1,893,232	3,836,574
Retained earnings	2,919,488	3,179,894
Treasury shares	(356,230)	(273,205)
Total shareholders' equity	6,401,044	10,632,735
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(724)	(188)
Foreign currency translation adjustments	(3,984)	16,314

(Units: Thousands of yen)

	Previous consolidated fiscal year (year ended March 31, 2017)	Current consolidated first half (September 30, 2017)
Deferred gains (losses) on hedges	(5,008)	(4,557)
Total accumulated other comprehensive income	(9,717)	11,568
Subscription rights to shares	23,832	3,540
Total net assets	6,415,159	10,647,845
Total liabilities and net assets	25,832,725	27,672,924

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

Consolidated Profit and Loss Statement

(Units: Thousands of yen)

	Previous consolidated first half (April 1, 2016－September 30, 2016)	Current consolidated first half (April 1, 2017－September 30, 2017)
Net sales	9,459,634	12,189,015
Cost of sales	7,640,496	10,067,880
Gross profit	1,819,138	2,121,135
Selling, general and administrative expenses	1,304,870	1,367,516
Operating income	514,267	753,618
Non-operating income		
Interest and dividend income	68	56
Insurance income	1,102	795
Other	8	34
Total non-operating income	1,178	886
Non-operating expenses		
Interest expenses	94,493	109,494
Borrowing fee	34,674	9,001
Other	35,803	19,615
Total non-operating expenses	164,971	138,110
Ordinary income	350,475	616,394
Extraordinary income		
Gain on sales of non-current assets	86,863	―
Total extraordinary income	86,863	―
Net income before taxes	437,338	616,394
Income taxes - current	159,900	233,357
Total income taxes	159,900	233,357
Net income	277,438	383,036
Net income attributable to owners of parent	277,438	383,036

Consolidated Profit and Loss Statement

(Units: Thousands of yen)

	Previous consolidated first half (April 1, 2016－September 30, 2016)	Current consolidated first half (April 1, 2017－September 30, 2017)
Net income	277,438	383,036
Other comprehensive income		
Valuation difference on available-for-sale securities	(8,092)	535
Foreign currency translation adjustment	(79,530)	20,298
Deferred gains (losses) on hedges	1,280	450
Total other comprehensive income	(86,342)	21,285
Comprehensive income	191,095	404,322
(attributable to)		
Comprehensive income attributable to owners of parent	191,095	404,322
Comprehensive income attributable to non-controlling interests	―	―