

Summary of Earnings Report for First Half of Year Ending March 31, 2017

October 24, 2016

Name of listed company: A.D.Works, Ltd. Listed stock exchange: Tokyo Stock Exchange
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 Additional material of financial result: Yes
 Result meeting: Yes

(Millions yen, rounded down)

1. Consolidated Results for the First Half of the Fiscal Year Ending March 31, 2017 (April 1, 2016–September 30, 2016)

(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	%
First half, year ending March 31, 2017	9,459	20.0	514	1.8	350	(14.8)	277	5.3
First half, year ended March 31, 2016	7,882	71.2	505	65.2	411	86.2	263	94.1

(Notes) Comprehensive income: 2017 2Q 191million yen ((27.4%)) 2016 2Q 263million yen (102.4%)

	Net Income per Share		Diluted Net Income per Share	
	Yen		Yen	
First half, year ending March 31, 2017	1.29		1.29	
First half, year ended March 31, 2016	1.23		1.22	

(2) Consolidated Financial Conditions

	Total assets	Net Assets	Shareholders' Equity Ratio
	¥ millions	¥ millions	%
First half, year ending March 31, 2017	22,102	5,973	26.9
End of fiscal year ended March 31, 2016	17,925	5,842	32.6

(Notes) Shareholders' equity: 2017 2Q 5,949 million yen End of 2016 5,836 million yen

2. Dividends Information

	Dividend per Share				
	1Q	Interim	3Q	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2016	—	0.00	—	0.35	0.35
Year ending March 31, 2017	—	0.00	—		
Year ending March 31, 2017 (forecast)			—	0.55	0.55

(Notes)1. Correction to most recently announced dividend forecast: No

2. The annual dividend for the year ending March 31, 2017 (forecast) includes a 0.20 yen dividend commemorating the 130th anniversary of our founding.

3. Consolidated Business Plan for the Fiscal Year Ending March 31, 2017

The A.D.W. Group announces its business targets for each consolidated fiscal year in the form of a “results plan.” “Results plans” are targets for our business and are different from “forecasts and predictions” that are calculated rationally based on information that is considered to be highly accurate.

(%: Comparison with the previous period)

	Net sales		EBITDA		Ordinary Income		Net Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Full year	16,500	4.9	1,200	29.5	800	23.0	528	23.7

1. Qualitative Information Concerning this Quarterly Earnings Report

(1) Explanation of business results

During the first half of this consolidated fiscal year, Japan saw improvements in the hiring and income environments, and continuing expectations of a gradual economic recovery. However overseas there were multiple risks of economic downturn including the decision by the UK to leave the EU based on a popular referendum in June 2016, and concerns of a slowdown in the economies of China and emerging nations. In the Japan financial markets, although there was a fall in the Nikkei average stock price in June 2016, stock prices have been recovering since July.

In the business environment surrounding the A.D.Works Group, although growth has slowed somewhat both in terms of the number of secondhand condominiums sold in the Tokyo Metropolitan Area and the price per m², it still exceeded the level of the same period in the previous fiscal year, and there remains strong activity in the retail market. The same conditions exist in the income property environment; however some signs of caution have emerged even as investors continue to adopt an active approach to the future.

Based on the Fifth Mid-Range Business Plan (year ending March 31, 2017 – year ending March 31, 2019), the A.D.W. Group has established 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 of capabilities so that they can support the larger scale of our business", and has carried out a variety of programs to achieve them.

In line with the above policies of our mid-range business plan, during the First half of this consolidated fiscal year we conducted active acquisition of properties in the Tokyo Metropolitan Area and in Los Angeles in the U.S, in parallel with our sales activities. In the United States business that was launched in 2013, we have continued to steadily expand acquisitions and sales as the U.S. economy remains on a strong growth path. During the first half of this consolidated fiscal year, we recorded sales of 1,019 million yen, accounting for approximately 10% of consolidated sales.

In addition, through operation of the A.D.Works "Royaltorch" owners' club, we worked to provide high-quality services that meet the needs of the customers (primarily high net-worth individuals) who are the owners of the properties which we sold, and strengthen our relationships of trust with them.

In addition, as a new program, we have begun construction of a new office building in Shibuya Dogenzaka that was developed by our company. We also opened an Osaka Sales Office, aiming to expand the profit base for our income properties business and stabilize the business by increasing the number of business sites.

As a result of the above, the business results for the First half of this consolidated business year are as shown in the table below.

(Units:Millions yen)

	First half , year ended March 31, 2016		First half , year ending March 31, 2017		
	amount	% of sales	amount	% of sales	year on year rate
Sales	7,882	100.0%	9,459	100.0%	120.0%
(Income property sales business)	(7,141)	(90.6%)	(8,584)	(90.8%)	(120.2%)
(Stock-type fee business)	(813)	(10.3%)	(993)	(10.5%)	(122.1%)
(Internal sales)	(-72)	(-0.9%)	(-118)	(-1.3%)	(162.7%)
EBITDA	532	6.7%	637	6.7%	119.8%
Ordinary income	411	5.2%	350	3.7%	85.2%

Net income before taxes	411	5.2%	437	4.6%	106.3%
Net income	263	3.3%	277	2.9%	105.3%

Note 1: "Net income" is short for "Net income attributable to owners of parent".

Note 2: A.D.Works categorizes a portion of the income properties held for long-term sale as fixed assets. The gain or loss on sales of these income properties is recorded as extraordinary gains or losses. EBITDA is calculated including these extraordinary gains and losses.

Segment results were as follows. The A.D.W. Group considers operating income to be the segment income.

(Income property sales business)

In this business segment, based on the business plan described above, we focused on active acquisitions and sales of income properties.

As real estate prices continue to rise, we focused on making maximum use of the A.D.Works appraisal capabilities and expertise when acquiring income properties in order to select properties with high profit potential. As a result, we completed the acquisition of 26 properties in Japan and 7 properties in the United States, for a total acquisition of 11,568 million yen of properties during the First half of this consolidated fiscal year.

On the other hand, the profitability of our properties was highly evaluated by the customers and we sold 21 properties in Japan and 4 properties in the United States.

As a result of the above, sales were 8,584 million yen (up 20.2% year-on-year), EBITDA was 903 million yen (up 16.8% year-on-year), and operating income was 816 million yen (up 5.5% year-on-year). The balance of income properties that will be a source of future profits was 18,227 million yen (compared with 14,551 million yen at the end of the previous fiscal year).

(Stock-type fee business)

This business segment is the segment which serves as an indicator for the goal of "achieving a stable profit base" that was described above. In the results from the First half of this consolidated fiscal year, our efforts at increasing the balance of income properties paid off, and produced sales of 993 million yen, up 22.1% year-on-year. On the other hand, there was an increase in expenses associated with this business, due primarily to higher depreciation resulting from the larger amount of income properties held for long-term sale, and to an increase in personnel expenses resulting from expanding the organization in preparation for future growth. 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 half of this consolidated fiscal year was 3,892 (compared with 3,649 at the end of the previous fiscal year).

As a result of the above, sales were 993 million yen (up 22.1% year-on-year), EBITDA was 342 million yen (up 15.3% year-on-year), and operating income was 319 million yen (up 13.3% year-on-year).

(Notes) *1: Operating income for each segment is the value before deduction of operating expenses that cannot be attributed to the segments and operating expenses resulting from inter-segment transfers. As a result, the total does not match the figure for consolidated operating income.

(2) Forecast for the fiscal year

Based on the Fifth Mid-Range Business Plan (fiscal year ended March 31, 2017 – fiscal year ending March 31, 2019) that was described in 1 (1), A.D.Works will focus on the following 4 measures during the coming fiscal year (year ending March 31, 2017).

- 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, 2017 that was announced on May 12 2016.

(Consolidated results plan for the year ending March 31, 2017)

(Units: Millions yen)

	Year ended March 31, 2016 (results)	Year ending March 31, 2017 (plan)
Consolidated sales	15,733	16,500
Consolidated EBITDA	926	1,200
Consolidated ordinary income	650	800
Consolidated net income before taxes	650	800
Consolidated net income	426	528
Consolidated ROE (end of year)	7.3%	6.4%

(注) Consolidated ROE (end of year) for the year ending March 31, 2017 was calculated assuming that we succeed in procuring the full amount of the 2,043 million yen in new funds that were announced in "Notice Regarding the Issue of the 19th Subscription Rights to Shares by Third Party Allocation and the Conclusion of Third Party Allocation Agreements with Commitment Provisions" on May 12, 2016.

The results plans announced by our company are targets for our business, and are different from “forecasts and predictions” that are calculated rationally based on information that is considered to be highly accurate. Separate from the results plans, A.D.Works also announces predicted progress for each quarter in the form of "forecasts" that are updated as needed. These are based on highly accurate current information concerning the group and information that we judge to be rational.

2. Consolidated Financial Statements

(1) Consolidated balance sheets

(Units: Thousands yen)

	Previous consolidated fiscal year (March 31, 2016)	Current consolidated First half (Sept. 30, 2016)
Assets		
Current assets		
Cash and savings	2,607,377	2,911,418
Accounts receivable	97,775	114,292
Income properties held for sale	12,457,636	15,670,978
Real estate for sale in process	231,369	1,317,641
Other	396,848	454,597
Allowance for doubtful accounts	(1,565)	(1,645)
Total current assets	15,789,442	20,467,283
Fixed assets		
Tangible fixed assets		
Land	1,239,617	638,283
Other(net)	692,728	681,084
Total tangible fixed assets	1,932,346	1,319,368
Intangible fixed assets	61,920	59,865
Investments and other assets	142,115	255,555
Total fixed assets	2,136,382	1,634,789
Total assets	17,925,825	22,102,073
Liabilities		
Current liabilities		
Accounts payable	232,905	308,393
Short-term loans payable	1,593,750	3,748,752
Current portion of bonds	129,500	129,500
Current portion of long-term loans payable	1,120,444	924,812
Corporate tax payable	106,741	176,243
Reserve	14,961	193,168
Other	973,305	991,794
Total current liabilities	4,171,609	6,472,665
Fixed liabilities		
Corporate bonds	1,037,750	1,073,000
Long-term loans payable	6,789,902	8,530,118
Other	84,106	52,910
Total fixed liabilities	7,911,758	9,656,028
Total liabilities	12,083,368	16,128,694

(Units: Thousands yen)

	Previous consolidated fiscal year (March 31, 2016)	Current consolidated First half (Sept.30, 2016)
Net assets		
Shareholders' equity	1,937,744	1,937,744
Capital stock	1,886,483	1,886,483
Capital surplus	2,457,085	2,656,597
Treasury stock	(397,471)	(397,471)
Total shareholders' equity	5,883,841	6,083,353
Accumulated other comprehensive income		
other difference in Securities valuation	—	(8,092)
Foreign currency translation adjustments	(46,481)	(126,011)
Deferred gains (losses) on hedges	(1,280)	—
Total accumulated other comprehensive income	(47,761)	(134,104)
Subscription rights to shares	6,376	24,129
Total net assets	5,842,456	5,973,378
Total liabilities and net assets	17,925,825	22,102,073

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

Consolidated Profit and Loss Statement

(Units: Thousands yen)

	Previous consolidated First half (April 1, 2015 – Sept. 30, 2015)	Current consolidated First half (April 1, 2016 – Sept. 30, 2016)
Sales	7,882,625	9,459,634
Cost of sales	6,276,059	7,640,496
Gross profit on sales	1,606,566	1,819,138
Sales, general, and administrative expenses	1,101,162	1,304,870
Operating income	505,403	514,267
Non-operating income		
Interest and dividends income	265	68
Insurance received	-	1,102
Interest on refund	14	8
Subsidy Income	942	-
Other	45	-
Total non-operating income	1,268	1,178
Non-operating expenses		
Interest paid	81,189	94,493
Commission Paid	5,142	34,674
Other	9,113	35,803
Total non-operating expenses	95,445	164,971
Ordinary income	411,226	350,475
Extraordinary Income		
Gain on disposal of fixed assets	-	86,863
Total extraordinary Income	-	86,863
Net income before taxes	411,226	437,338
Income taxes – current	147,786	159,900
Total income taxes	147,786	159,900
Net income	263,440	277,438
Net income attributable to owners of parent	263,440	277,438

Consolidated Comprehensive Income Statement

(Units: Thousands yen)

	Previous consolidated First half (April 1, 2015 – Sept. 30, 2015)	Current consolidated First half (April 1, 2016 – Sept. 30, 2016)
Net income before minority interests	263,440	277,438
Other comprehensive income		
other difference in Securities valuation	—	(8,092)
Foreign currency translation adjustments	(1,362)	(79,530)
Deferred gains (losses) on hedges	1,007	1,280
Total other comprehensive income	(354)	(86,342)
Comprehensive income	263,085	191,095
(attributable to)		
Owners of the parent company	263,085	191,095
Minority interests	—	—