

Summary of Earnings Report for First Quarter of Year Ending December 31, 2024

May 14, 2024

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: Jun Yamano, Executive Officer, General Manager of Corporate Planning Division TEL: +81-(0) 3-5251-7641
 Scheduled date of filing: May 14, 2024 Scheduled date of dividend payment: —
 Additional material of financial results: Yes
 Results meeting: No

(Millions of yen, rounded down)

1. Consolidated Results for the First Quarter of the Fiscal Year Ending December 31, 2024 (January 1, 2024– March 31, 2024)

(1) Consolidated business results (cumulative)

(%: Year-on-year comparison)

	Net Sales		Operating Income		Net income before income taxes		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First quarter, Fiscal year ending December 31, 2024	7,833	13.7	599	114.6	434	56.8	256	14.3
First quarter, Fiscal year ended December 31, 2023	6,887	7.4	279	27.2	277	104.4	224	157.7

(Notes) Comprehensive Income: 2024 1Q 536 million yen 278.9% 2023 1Q 141 million yen -54.5%

	Net Income per Share	Diluted Net Income per Share
First quarter, year ending December 31, 2024	Yen 5.34	Yen 5.26
First quarter, year ended December 31, 2023	4.74	—

(Notes). Net income per share on a diluted basis for the fiscal year ended on December 31, 2023 is not presented because there are no dilutive potential shares.

(2) Consolidated financial conditions

	Total Assets	Net Assets	Equity Ratio
First quarter, year ending December 31, 2024	Million yen 61,566	Million yen 17,518	% 28.4
Fiscal year ended December 31, 2023	58,854	17,166	29.1

(Notes) Equity: 2024 1Q 17,458 million yen 2023 17,106 million yen

2. Dividend Information

	Dividend per Share				
	1Q	Interim	3Q	Year end	Total
Fiscal year ended December 31, 2023	Yen —	Yen 3.50	Yen —	Yen 4.50	Yen 8.00
Fiscal year ending December 31, 2024	—				
Fiscal year ending December 31, 2024 (forecast)		4.50	—	4.50	9.00

(Notes). 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, 2024 (January 1, 2024–December 31, 2024)

A.D.Works 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		Operating Income		Net income before income taxes		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Full year	47,000	13.7	3,000	22.9	2,300	11.3	1,565	10.2

(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. : No

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 FY2024	49,533,264 shares	Fiscal year ended on December 31, 2023	49,455,764 shares
Q1 FY2024	1,340,589 shares	Fiscal year ended on December 31, 2023	1,488,986 shares
Q1 FY2024	48,098,329 shares	Q1 FY2023	47,401,705 shares

2. Number of treasury stock at end of period

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

(Note) The Company has a Director Stock Compensation Trust and the Company shares held by the trust are included in the number of treasury stock.

* 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. Qualitative Information Concerning Quarterly Results	1
(1) Description of business results	1
(2) Description of financial position	2
(3) Description of future consolidated results plan and other future forecasts	3
2. Quarterly Consolidated Financial Statements	5
(1) Quarterly Consolidated balance sheets	5
(2) Quarterly Consolidated Profit and Loss Statement, and Consolidated Comprehensive Income Statement....	7
(3) Notes for the quarterly consolidated financial statements.....	9
(Notes on the going concern assumption).....	9
(Notes on significant changes in amount of shareholders' equity).....	9
(Application of specific accounting methods when preparing quarterly consolidated financial statements).....	9

1. Qualitative Information Concerning Quarterly Results

(1) Description of business results

In the first quarter of the fiscal year under review, the Japanese economy showed signs of a gradual recovery with the Nikkei Stock Average reaching a record high.

The urban income property market, which is the Group's core area of business, continues to boom thanks to a financing environment with low interest rates and other factors. Although the Bank of Japan decided to lift its negative interest rate policy on March 19, 2024, there does not currently appear to be any significant change in the income property market.

In Los Angeles, where the Group has an office, the income property market showed signs of price depreciation due to the ongoing financing difficulties caused by continuously high interest rates.

Amid this business environment, on February 8, 2024, the Group announced its Second Medium-Term Management Plan (Fiscal year ending December 31, 2024, to December 31, 2026). Through this plan, the aim is to continuously achieve double-digit growth in earnings per share to counter our low stock value (less than 1x P/B ratio), and in turn meet the expectations of our shareholders.

To do so, in the first quarter of the fiscal year under review, we sought to ensure stable income by strengthening our acquisition, commercialization, and sale of real estate both in Japan and overseas, and developing non-asset businesses.

As a result, in the first quarter of the fiscal year under review, the Group's net sales totaled 7,833 million yen (16.7% of the full-year business plan), operating income was 599 million yen (20.0% of plan), income before taxes was 434 million yen (18.9% of plan), and net income attributable to owners of parent was 256 million yen (16.4% of plan).

Earnings results for the first quarter of the consolidated fiscal year under review are shown in the table below.

(Unit: million yen)

	Fiscal year ending December 31, 2024 (Full-year plan)		First quarter, year ended December 31, 2023 (Results)		First quarter, year ending December 31, 2024 (Results)			
	Amount	Net sales ratio	Amount	Net sales ratio	Amount	Net sales ratio	YoY	Percentage of full- year plan achieved
Net sales	47,000	100.0%	6,887	100.0%	7,833	100.0%	113.7%	16.7%
(Property sales)	—	—	(5,450)	(79.1%)	(6,536)	(83.4%)	(119.9%)	—
(Stock)	—	—	(1,525)	(22.1%)	(1,411)	(18.0%)	(92.5%)	—
(Internal sales)	—	—	(-88)	(-1.3%)	(-113)	(-1.5%)	—	—
Operating income	3,000	6.4%	279	4.1%	599	7.7%	214.6%	20.0%
Net income before income taxes	2,300	4.9%	277	4.0%	434	5.5%	156.8%	18.9%
Net income	1,565	3.3%	224	3.3%	256	3.3%	114.3%	16.4%

Note: "Property sales," "stock," "net income before taxes," and "net income" are the respective abbreviations of "income property sales business," "stock-type fee business," "net income before income taxes," and "net income attributable to owners of parent."

A summary of the segment results is as follows. Please note that the Group considers operating income to be segment income.

(Income property sales business)

Net sales were 6,536 million yen and operating income was 805 million yen.

The income property sales business segment accounts for more than 80% of the Group's consolidated net sales. The business acquires income property, which is a key source of revenue, having carefully examined property value based on its product planning capacity.

In the brisk domestic market, both acquisitions and sales progressed strongly. Sales of small-lot real estate products performed especially well, with both ARISTO Aoyama II (total sales: 1.77 billion yen) and ARISTO Sapporo (total sales: 777 million yen) selling out, and as a result net sales are steadily growing.

Overseas, we are carefully moving forward with acquisition and sale activities with an eye on market trends.

In the first quarter, acquisitions and sales in Japan and overseas were as follows.

(Unit: million yen)

	Acquisitions		Revenue from sales	
	Q1 FY2023	Q1 FY2024	Q1 FY2023	Q1 FY2024
Japan	6,227	7,964	5,162	6,529
Overseas	618	—	285	—
Total	6,846	7,964	5,448	6,529

(Stock-type fee business)

Net sales were 1,411 million yen and operating income was 246 million yen.

The stock-type fee business is an important segment that maintains the stability of the Group's results. The main source of revenue is rental revenue from income properties held by the Group, as well as property management revenue from A.D. Partners Co., Ltd. and ADW Management USA, Inc., and construction revenue from Sumikawa ADD Co., Ltd.

Thanks to strong acquisition activities, the average balance of income properties rose from 43,046 million yen in the first quarter of the previous fiscal year to 46,686 million yen in the first quarter of the fiscal year under review. Elsewhere, although at 413 million yen rental revenue in the first quarter of the fiscal year under review decreased year on year due to real estate occupancy rates and other factors, moving forward, we anticipate that it will increase as occupancy rates improve in line with increasing commercialization.

A breakdown of revenue in the stock-type fee business in the first quarter is as follows.

(Unit: million yen)

	Q1 FY2023	Q1 FY2024	YoY
Rental revenue	453	413	91.3%
Other revenue (Property management, construction, etc.)	1,072	997	93.0%
Total	1,525	1,411	92.5%

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.

2: 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 fees for interior decoration work and repair work, and brokerage income derived from customer relations are classified as "flow-type."

(2) Description of financial position

In this First quarter, as a result of acquiring income properties, the balance of income properties held for sale increased by 4,084 million yen from the end of the previous fiscal year. Interest-bearing liabilities increased by 4,248 million yen from the end of the previous fiscal year. Accordingly, total assets increased by 2,711 million yen from the end of the previous fiscal year.

The total balance of properties held for sale or rental revenue at the end of this First quarter increased by 4,084 million yen to 48,882 million yen from the end of the previous fiscal year because of acquisitions mentioned above.

The details of the consolidated balance sheet for this fiscal year are as follows.

The "ratio" indicates the percentage relative to total assets (total liabilities and net assets).

(Assets)

Total assets at the end of this First quarter were 61,566 million yen. Of this, real estate for sale and real estate for sale in process accounted for 42,299 million yen (68.7% ratio), cash and deposits for 8,044 million yen (13.1%), and properties held for rental revenue (included in property, plant and equipment) for 6,583 million yen (10.7%).

(Liabilities)

Total liabilities at the end of this First quarter were 44,048 million yen. Of this, interest-bearing liabilities accounted for 39,059 million yen (63.4% ratio), which were increased by 4,248 as a result of increase of income properties.

(Net assets)

Total net assets amounted to 17,518 million yen. Of this, capital stock and capital surplus accounted for 11,624 million yen (18.9% ratio).

(3) Description of future consolidated results plan and other future forecasts

In the first quarter, results were largely in line with our results plan (consolidated net sales: 47,000 million yen; consolidated operating income: 3,000 million yen; net income before income taxes: 2,300 million yen; and net income attributable to owners of parent: 1,565 million yen) for the fiscal year under review (ending December 31, 2024), and as such there are no changes to the plan at present.

The results plan for the three years of the Second Medium-Term Management Plan (Fiscal year ending December 31, 2024, to December 31, 2026), announced on February 8, 2024, are shown in Table 1. As per Table 2, the Group has almost always achieved its initial results plans. To further reduce capital costs, we have formulated the results plan shown in Table 1 based on a thorough balance between probability and growth rate.

Table 1

(million yen)

Consolidated	FY2021 (Fiscal year ended December 31, 2021)	FY2022 (Fiscal year ended December 31, 2022)	FY2023 (Fiscal year ended December 31, 2023)	FY2024 (Fiscal year ending December 31, 2024)	FY2025 (Fiscal year ending December 31, 2025)	FY2026 (Fiscal year ending December 31, 2026)
	Results	Results	Results	Plan	Plan	Plan
Net sales	24,961	27,856	41,342	47,000	52,000	58,000
Operating Income	933	1,376	2,441	3,000	3,300	3,700
Net income before income taxes	650	910	2,066	2,300	2,600	3,000
Income property balance	28,914	41,476	44,798	45,000	46,000	50,000
Shareholders' equity	14,724	15,217	16,353	17,500	18,500	20,000
ROE	2.2%	3.5%	9.0%	9.2%	9.6%	10.4%
ROIC	1.8%	2.2%	4.0%	4.3%	4.6%	4.8%
Human resource productivity "PH gross profit"	24/person	25/person	31/person	33/person	34/person	35/person
Financial soundness "Equity ratio"	35.1%	29.6%	29.1%	Approx. 30%	Approx. 30%	Approx. 30%
Shareholder value "EPS"	7.22 yen	11.32 yen	29.85 yen	32.95 yen	36.35 yen	41.76 yen

Notes 1: Balance of income properties: Total balance of properties held for sale or rental revenue

2: ROE: Net income attributable to owners of parent / average shareholders' equity (Figures may differ from net income on equity.)

3: ROIC: (Net income attributable to owners of parent + interest expenses + borrowing fee) / (balance of average shareholders' equity + balance of average interest-bearing liabilities)

4: PH gross profit (gross profit per head): Gross profit / average number of employees

5: EPS (earnings per share): Net income attributable to owners of parent / average number of shares during the period

Note that figures in "Plan" in Table 1 are targets for our businesses, which differ from the forecasts and predictions.

Table 2

(million yen)

Net income before income taxes or ordinary income	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Plan	450	500	600	800	900	1,000	890	400	600	800	2,000
Results	450	540	650	(835)	924	1,043	933	432	650	910	2,066
Achievement rate	100%	108%	108%	(104%)	103%	104%	105%	108%	108%	114%	103%

Note 1: The ordinary income for the period between FY2013, and FY2016, and the net income before income taxes for the period between FY2017 and FY2023.

- 2: In FY2016, an extraordinary gain of 86 million yen was recorded from the sale of properties classified as property, plant and equipment. Ordinary income amounted to 748 million yen, but we recognized 835 million yen of net income before income taxes as actual ordinary income and presented it as actual results in the ordinary income plan of 800 million yen (net income before income taxes plan not announced in FY2016).
- 3 FY2020 was an irregular accounting period of nine months between April 1, 2020, and December 31, 2020.

The status of the monitoring indicators for “the acquisition of corporate agility,” a medium- to long-term initiative within the Second Medium-Term Management Plan (Fiscal year ending December 31, 2024 to December 31, 2026), is as below.

【Equity ratio: Improvement of durability with respect to real estate market fluctuation risks】

Q1 FY2024 (Results)	Target
28.4%	Approx. 30%

【Non-asset business share: Improvement of agility through development of businesses not dependent on assets】

Q1 FY2024 (Results)	Target
12.7%	30%

*Non-asset business share = $\frac{[(\text{Consolidated gross profit} - \text{Sales brokerage fees}) - (\text{Income property sales gross profit} - \text{Sales brokerage fees} + \text{Rental gross profit})]}{\text{Consolidated marginal profit}} \times \frac{[\text{Consolidated gross profit} - \text{Sales brokerage fees}]}{[\text{Consolidated gross profit} - \text{Sales brokerage fees}]}$

【Coverage of fixed costs: Improvement of flexibility by building a stable income base】

Q1 FY2024 (Results)	Target
37.0%	To be monitored for the time being

* Coverage of fixed costs = $\frac{[(\text{Consolidated gross profit} - \text{Sales brokerage fees}) - (\text{Income property sales gross profit} - \text{Sales brokerage fees})]}{\text{Fixed costs}} \times \frac{[\text{Consolidated gross profit} - \text{Sales brokerage fees}]}{[\text{Selling, general and administrative expenses} - \text{Sales brokerage fees} + \text{Interest expenses}]}$

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated balance sheets

(Unit: Thousands of yen)

	As of December 31, 2023	As of March 31, 2024
Assets		
Current assets		
Cash and deposits	9,810,667	8,044,376
Accounts receivable - trade	116,163	116,000
Real estate for sale	35,102,713	39,476,406
Real estate for sale in process	3,311,774	2,822,717
Other	1,952,800	2,222,209
Allowance for doubtful accounts	(949)	(1,475)
Total current assets	50,293,170	52,680,233
Non-current assets		
Property, plant and equipment		
Other, net	6,558,768	6,776,102
Total property, plant and equipment	6,558,768	6,776,102
Intangible assets		
Goodwill	327,320	319,401
Other	102,356	102,055
Total intangible assets	429,677	421,457
Investments and other assets		
Investment securities	661,138	771,141
Deferred tax assets	477,449	489,455
Other	411,682	408,677
Total investments and other assets	1,550,270	1,669,274
Total non-current assets	8,538,716	8,866,834
Deferred assets		
Establishment costs	9,766	7,823
Bonds issuance cost	13,254	11,929
Total deferred assets	23,021	19,752
Total assets	58,854,908	61,566,820
Liabilities		
Current liabilities		
Accounts payable - trade	1,258,379	858,533
Short-term loans payable	779,400	836,000
Current portion of bonds	390,200	390,200
Current portion of long-term loans payable	7,014,001	3,655,785
Income taxes payable	661,507	185,114
Crowd funding and other deposits received	2,257,357	1,402,375
Provisions	254,518	78,410
Other	2,433,065	2,447,347
Total current liabilities	15,048,430	9,853,766
Non-current liabilities		
Bonds payable	675,900	559,500
Long-term loans payable	25,951,316	33,618,286
Other	12,535	17,100
Total non-current liabilities	26,639,752	34,194,886
Total liabilities	41,688,182	44,048,652

(Unit: Thousands of yen)

	As of December 31, 2023	As of March 31, 2024
Net assets		
Shareholders' equity		
Capital stock	6,262,735	6,270,025
Capital surplus	5,346,478	5,354,833
Retained earnings	4,980,357	5,015,420
Treasury shares	(235,687)	(213,189)
Total shareholders' equity	16,353,883	16,427,090
Accumulated other comprehensive income		
Foreign currency translation adjustments	726,319	995,918
Valuation difference on available-for-sale securities	26,017	35,987
Total accumulated other comprehensive income	752,336	1,031,906
Subscription rights to shares	29,206	27,545
Non-controlling interests	31,298	31,626
Total net assets	17,166,725	17,518,167
Total liabilities and net assets	58,854,908	61,566,820

(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, 2023 - March 31, 2023)	Current consolidated First quarter (January 1, 2024 - March 31, 2024)
Net sales	6,887,429	7,833,876
Cost of sales	5,708,113	6,044,018
Gross profit	1,179,316	1,789,857
Selling, general and administrative expenses	900,093	1,190,521
Operating income	279,222	599,336
Non-operating income		
Interest and dividend income	5,839	7,423
Foreign exchange gains	112,337	—
Other	712	9,711
Total non-operating income	118,890	17,134
Non-operating expenses		
Interest expenses	117,878	127,850
Borrowing fee	18,861	31,156
Amortization of establishment costs	1,943	1,943
Loss on equity method investments	—	7,878
Other	8,254	13,061
Total non-operating expenses	146,937	181,890
Ordinary income	251,175	434,580
Extraordinary income		
Gain on sales of investment securities	25,933	—
Total extraordinary income	25,933	—
Quarterly net income before income taxes	277,109	434,580
Income taxes - current	52,070	177,703
Total income taxes	52,070	177,703
Quarterly net income	225,038	256,876
Quarterly net income attributable to non-controlling interests	267	—
Net income attributable to owners of parent	224,771	256,876

Consolidated Comprehensive Income Statement

First quarter of consolidated fiscal year

(Unit: Thousands of yen)

	Previous consolidated First quarter (January 1, 2023 - March 31, 2023)	Current consolidated First quarter (January 1, 2024 - March 31, 2024)
Quarterly net income	225,038	256,876
Other comprehensive income		
Valuation difference on available-for-sale securities	12,218	9,970
Foreign currency translation adjustments	(95,664)	269,599
Total other comprehensive income	(83,446)	279,569
Quarterly comprehensive income	141,592	536,446
(Breakdown)		
Comprehensive income attributable to owners of parent	141,325	536,446
Comprehensive income attributable to non-controlling interests	267	—

(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.