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

November 14, 2024

Name of listed company: A.D.Works Group Co., Ltd. Listed stock exchange: Tokyo Stock Exchange
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Scheduled date of dividend payment: —
Additional material of financial results: Yes
Results meeting: No

(Millions of yen, rounded down)

1. Consolidated Results for the Third Quarter of the Fiscal Year Ending December 31, 2024 (January 1, 2024– September 30, 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	%
Third Quarter, Fiscal year ending December 31, 2024	33,797	20.8	2,293	27.6	1,782	14.8	1,105	5.9
Third Quarter, Fiscal year ended December 31, 2023	27,977	32.9	1,797	65.2	1,552	95.4	1,043	119.2

(Notes) Comprehensive Income: 2024 3Q 1,127 million yen -20.2% 2023 3Q 1,411 million yen 1.7%

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Third Quarter, year ending December 31, 2024	22.96	22.66
Third Quarter, year ended December 31, 2023	21.98	21.81

(2) Consolidated financial conditions

	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
Third Quarter, year ending December 31, 2024	58,911	17,806	30.1
Fiscal year ended December 31, 2023	58,854	17,166	29.1

(Notes) Equity: 2024 3Q 17,759 million yen 2023 17,106 million yen

2. Dividend Information

	Dividend per Share				
	1Q	Interim	3Q	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2023	—	3.50	—	4.50	8.00
Fiscal year ending December 31, 2024	—	4.50	—		
Fiscal year ending December 31, 2024 (forecast)				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) Significant changes in the scope of consolidation during the consolidated fiscal year under review : Yes

New: ―Company (name of company)―, Excluded: 1 Company (name of company) ADW Lending LLC

(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	3Q FY2024	49,649,764 shares	Fiscal year ended on December 31, 2023	49,455,764 shares
2. Number of treasury stock at end of period	3Q FY2024	1,825,880 shares	Fiscal year ended on December 31, 2023	1,488,986 shares
3. Average number of shares during period (cumulative period)	3Q FY2024	48,148,539 shares	3Q FY2023	47,485,603 shares

(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.

* Review of the attached quarterly consolidated financial statements by a certified public accountant or audit corporation : None

* 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]

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1. Qualitative Information Concerning Quarterly Results

(1) Description of business results

During the third quarter of the fiscal year under review, the Japanese economy showed signs of a gradual recovery overall amid improvement in the employment and income environment, even as the Nikkei 225 alternately plummeted and spiked in August.

The urban income property market, which is the Group's core area of business, continues to benefit from high demand for investments in the income property market, with no changes in market trends even after the Bank of Japan lifted its negative interest rate policy.

In Los Angeles, where the Group has an office, demand in the income property market continued to be curbed by the harsh financing environment due to stubbornly high policy 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 third 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 Third Quarter of the fiscal year under review, the Group's net sales totaled 33,797 million yen (71.9% of the full-year business plan), operating income was 2,293 million yen (76.4% of plan), income before taxes was 1,782 million yen (77.5% of plan), and net income attributable to owners of parent was 1,105 million yen (70.7% of plan).

Earnings results for the Third 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)		Third Quarter, year ended December 31, 2023 (Results)		Third 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%	27,977	100.0%	33,797	100.0%	120.8%	71.9%
(Property sales)	—	—	(23,635)	(84.5%)	(29,624)	(87.7%)	(125.3%)	—
(Stock)	—	—	(4,645)	(16.6%)	(4,560)	(13.5%)	(98.2%)	—
(Internal sales)	—	—	(-303)	(-1.1%)	(-387)	(-1.1%)	—	—
Operating income	3,000	6.4%	1,797	6.4%	2,293	6.8%	127.6%	76.4%
Net income before income taxes	2,300	4.9%	1,552	5.6%	1,782	5.3%	114.8%	77.5%
Net income	1,565	3.3%	1,043	3.7%	1,105	3.3%	105.9%	70.7%

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 29,624 million yen and operating income was 2,733 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 ARISTO Nishi-Shinjuku (total sales: 1,140 million yen), ARISTO Hakata (total sales: 725 million yen) and ARISTO Nishi-Azabu II (total sales: 2,083 million yen, or 94.4% of the total sales of 2,205 million yen) selling out, and as a result net sales are steadily growing. (Total sales above are inclusive of tax.)

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

In the Third Quarter, acquisitions and sales in Japan and overseas were as follows.

(Unit: million yen)

	Acquisitions		Revenue from sales	
	3Q FY2023	3Q FY2024	3Q FY2023	3Q FY2024
Japan	20,377	21,719	22,530	28,756
Overseas	879	558	1,096	672
Total	21,257	22,277	23,627	29,428

(Stock-type fee business)

Net sales were 4,560 million yen and operating income was 913 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.

The total balance of income properties at the end of the third quarter of the fiscal year under review was 44,725 million yen, only a slight decrease compared with 45,833 million yen at the end of the third quarter of the previous year due to strong sales activities. Factors such as the real estate occupancy rates and the progress with sales led to 1,325 million yen decrease in rental revenue in the third quarter compared with the same period of the previous year, continuing the trend from the second quarter.

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

(Unit: million yen)

	3Q FY2023	3Q FY2024	YoY
Rental revenue	1,393	1,325	95.1%
Other revenue (Property management, construction, etc.)	3,251	3,234	99.5%
Total	4,645	4,560	98.2%

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 we held, 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

Total assets and total liabilities and net assets at the end of the third quarter of the fiscal year under review increased by 56 million yen compared with the end of the previous consolidated fiscal year, to 58,911 million yen.

Real estate for sale and real estate for sale in process decreased by 258 million yen because sales of income properties exceeded acquisitions, among other factors. As a result, the total balance of income properties held for sale or rental revenue at the end of the third quarter (including the amount posted as property, plant and equipment) was 44,725 million yen.

In addition, interest-bearing liabilities increased by 1,454 million yen from the end of the previous fiscal year.

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 third quarter were 58,911 million yen. Of this, real estate for sale and real estate for sale in process accounted for 38,155 million yen (64.8% ratio), cash and deposits for 9,850 million yen (16.7%), and properties held for rental revenue (included in property, plant and equipment) for 6,569 million yen (11.2%).

(Liabilities)

Total liabilities at the end of this third quarter were 41,104 million yen. Of this, interest-bearing liabilities accounted for 36,265 million yen, which were increased by 1,454 as a result of increase of income properties.

(Net assets)

Total net assets amounted to 17,806 million yen. Of this, capital stock and capital surplus accounted for 11,648 million yen.

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

In the Third 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) Results	FY2022 (Fiscal year ended December 31, 2022) Results	FY2023 (Fiscal year ended December 31, 2023) Results	FY2024 (Fiscal year ending December 31, 2024) Plan	FY2025 (Fiscal year ending December 31, 2025) Plan	FY2026 (Fiscal year ending December 31, 2026) 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
Achieve-ment 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】

3Q FY2024 (Results)	Target
30.1%	Approx. 30%

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

3Q FY2024 (Results)	Target
13.6%	30%

*Non-asset business share = [(Consolidated gross profit – Sales brokerage fees) – (Income property sales gross profit - Sales brokerage fees + Rental gross profit)] ÷ Consolidated marginal profit ［Consolidated gross profit - Sales brokerage fees]

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

3Q FY2024 (Results)	Target
40.6%	To be monitored for the time being

* Coverage of fixed costs = [(Consolidated gross profit – Sales brokerage fees) - (Income property sales gross profit - Sales brokerage fees)] ÷ Fixed costs [Selling, general and administrative expenses - Sales brokerage fees + Interest expenses]

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated balance sheets

(Unit: Thousands of yen)

	As of December 31, 2023	As of September 30, 2024
Assets		
Current assets		
Cash and deposits	9,810,667	9,850,191
Accounts receivable - trade	116,163	92,898
Real estate for sale	35,102,713	35,505,688
Real estate for sale in process	3,311,774	2,650,081
Other	1,952,800	2,053,718
Allowance for doubtful accounts	(949)	(1,276)
Total current assets	50,293,170	50,151,302
Non-current assets		
Property, plant and equipment		
Other, net	6,558,768	6,754,255
Total property, plant and equipment	6,558,768	6,754,255
Intangible assets		
Goodwill	327,320	303,563
Other	102,356	116,619
Total intangible assets	429,677	420,182
Investments and other assets		
Investment securities	661,138	638,672
Deferred tax assets	477,449	520,426
Other	411,682	409,930
Total investments and other assets	1,550,270	1,569,030
Total non-current assets	8,538,716	8,743,468
Deferred assets		
Establishment costs	9,766	3,936
Bonds issuance cost	13,254	12,319
Total deferred assets	23,021	16,255
Total assets	58,854,908	58,911,025
Liabilities		
Current liabilities		
Accounts payable - trade	1,258,379	689,539
Short-term loans payable	779,400	912,000
Current portion of bonds	390,200	523,600
Current portion of long-term loans payable	7,014,001	5,894,953
Income taxes payable	661,507	339,963
Crowd funding and other deposits received	2,257,357	1,029,131
Provisions	254,518	81,417
Other	2,433,065	2,675,119
Total current liabilities	15,048,430	12,145,723
Non-current liabilities		
Bonds payable	675,900	431,000
Long-term loans payable	25,951,316	28,504,129
Other	12,535	23,812
Total non-current liabilities	26,639,752	28,958,941
Total liabilities	41,688,182	41,104,665

(Unit: Thousands of yen)

	As of December 31, 2023	As of September 30, 2024
Net assets		
Shareholders' equity		
Capital stock	6,262,735	6,282,028
Capital surplus	5,346,478	5,366,837
Retained earnings	4,980,357	5,646,401
Treasury shares	(235,687)	(313,649)
Total shareholders' equity	16,353,883	16,981,617
Accumulated other comprehensive income		
Foreign currency translation adjustments	726,319	747,681
Valuation difference on available-for-sale securities	26,017	30,543
Total accumulated other comprehensive income	752,336	778,225
Subscription rights to shares	29,206	25,545
Non-controlling interests	31,298	20,972
Total net assets	17,166,725	17,806,360
Total liabilities and net assets	58,854,908	58,911,025

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

Consolidated Profit and Loss Statement

Third Quarter of consolidated fiscal year

(Unit: Thousands of yen)

	Previous consolidated Third Quarter (January 1, 2023 – September 30, 2023)	Current consolidated Third Quarter (January 1, 2024 – September 30, 2024)
Net sales	27,977,033	33,797,960
Cost of sales	23,182,719	27,620,599
Gross profit	4,794,313	6,177,360
Selling, general and administrative expenses	2,997,050	3,884,350
Operating income	1,797,263	2,293,009
Non-operating income		
Interest and dividend income	42,676	20,846
Foreign exchange gains	108,115	—
Gain on maturity of insurance contract	—	15,866
Other	6,452	13,056
Total non-operating income	157,244	49,768
Extraordinary income		
Interest expenses	382,913	430,231
Borrowing fee	43,070	75,913
Amortization of establishment costs	5,830	5,830
Loss on equity method investments	—	24,138
Other	34,170	31,428
Total non-operating expenses	465,984	567,542
Ordinary income	1,488,523	1,775,235
Extraordinary income		
Gain on sales of investment securities	25,933	—
Gain on sales of investment share acquisition rights	38,381	15,923
Total extraordinary income	64,314	15,923
Extraordinary loss		
Loss on disposal of fixed assets	—	1,521
Loss on change in equity	—	6,805
Total extraordinary loss	—	8,327
Quarterly net income before income taxes	1,552,838	1,782,832
Income taxes - current	508,603	681,668
Total income taxes	508,603	681,668
Quarterly net income	1,044,234	1,101,163
Quarterly net income attributable to non-controlling interests	267	(4,764)
Net income attributable to owners of parent	1,043,967	1,105,928

Consolidated Comprehensive Income Statement

Third Quarter of consolidated fiscal year

(Unit: Thousands of yen)

	Previous consolidated Third Quarter (January 1, 2023 - September 30, 2023)	Current consolidated Third Quarter (January 1, 2024 - September 30, 2024)
Quarterly net income	1,044,234	1,101,163
Other comprehensive income		
Valuation difference on available-for-sale securities	16,330	4,526
Foreign currency translation adjustments	351,216	21,362
Total other comprehensive income	367,547	25,888
Quarterly comprehensive income	1,411,782	1,127,052
(Breakdown)		
Comprehensive income attributable to owners of parent	1,411,514	1,131,816
Comprehensive income attributable to non-controlling interests	267	(4,764)

(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)

The Company acquired 483,100 shares of treasury stock based on a resolution of the Board of Directors meeting held on August 8, 2024. As a result, treasury stock increased by 99,989,000 yen during the third quarter of the current consolidated fiscal year, and treasury stock was 313,649,000 yen at the end of the third quarter of the current consolidated fiscal year.

(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 third 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.

(Notes on segment information, etc.)

< Segment information>

I. Third Quarter of previous consolidated fiscal year (January 1, 2023, to September 30, 2023)

Information on net sales and profit for each reportable segment

(Unit: Thousands of yen)

	Reportable segments			Adjustments*1	Semi-annual consolidated profit/loss posted *2
	Income property sales business	Stock-type fee business	Total		
Net sales Net sales to external customers	23,635,033	4,341,999	27,977,033	－	27,977,033
Intersegment sales	－	303,505	303,505	(303,505)	－
Total	23,635,033	4,645,504	28,280,538	(303,505)	27,977,033
Segment profit (Operating profit)	1,734,756	1,056,519	2,791,276	(994,012)	1,797,263

(Notes)

*1 The adjustments for segment profit are elimination of inter-segment transactions and corporate expenses that are not allocated to reportable segments.

*2 Segment profit is adjusted with operating profit on the semi-annual consolidated profit and loss statement.

II. Third Quarter of current consolidated fiscal year (January 1, 2024, to September 30, 2024)

Information on net sales and profit for each reportable segment

(Unit: Thousands of yen)

	Reportable segments			Adjustments*1	Semi-annual consolidated profit/loss posted *2
	Income property sales business	Stock-type fee business	Total		
Net sales Net sales to external customers	29,624,709	4,173,250	33,797,960	－	33,797,960
Intersegment sales	－	387,144	387,144	(387,144)	－
Total	29,624,709	4,560,395	34,185,104	(387,144)	33,797,960
Segment profit (Operating profit)	2,733,044	913,670	3,646,715	(1,353,705)	2,293,009

(Notes)

*1 The adjustments for segment profit are elimination of inter-segment transactions and corporate expenses that are not allocated to reportable segments.

*2 Segment profit is adjusted with operating profit on the semi-annual consolidated profit and loss statement.

(Notes on Statement of Cash Flows)

A quarterly consolidated statement of cash flows for the third quarter of the current consolidated fiscal year has not been prepared. The depreciation and amortization (including amortization of intangible fixed assets excluding goodwill) and amortization of goodwill for the third quarter of the current consolidated fiscal year are as follows.

(Unit: Thousands of yen)

	Previous consolidated third quarter (January 1, 2023 – September 30, 2023)	Current consolidated third quarter (January 1, 2024 – September 30, 2024)
Depreciation	94,047	121,547
Amortization of goodwill	17,389	23,757