Adastria Co., Ltd.

FY2017/02 Financial Results & Business Strategy

April , 2017

ADASTRIA

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FY2017/02 Results
FY2018/02 Forecast

Representative Director, Chief Operating Officer
Masa Matsushita

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Summary of FY2017/02

■ Net sales increased, operating income, ordinary income decreased YoY Record high net income

Although the consolidated net sales increased, operating income and ordinary income decreased due to the decline in the gross profit margin as well as the higher SG&A expense ratio. However, net income rose to a record high because of the 3.7 billion yen gain on sales of investment securities.

■ Missed the sales and operating income forecast

Due to the lack of a big change in fashion trends, sales were slightly below the forecast. Although the cost of sales decreased, the price discount rate increased in order to reduce inventories, resulting in operating income that was 12% below the forecast. However, net income was only slightly below the forecast because of the gain on sales of investment securities.

■ Substantial investments for the next stage growth

Despite the challenging environment, Adastria has started investing in new brands, new fields, infrastructure and global EC for medium to long-term growth.

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Consolidated Income Statement

Millions of yen

Consolidated	FY2016/02 Results	FY2016/02 Ratio	FY2017/02 September 30 forecast	FY2017/02 Result	FY2017/02 Ratio	FY2017/02 YoY
Net sales	200,038	100.0%	208,900	203,686	100.0%	101.8%
Gross profit	113,266	56.6%	-	114,666	56.3%	101.2%
SG&A expenses	97,261	48.6%	-	99,750	49.0%	102.6%
Advertising & promotion	5,805	2.9%	-	6,308	3.1%	108.7%
Personnel	33,186	16.6%	-	33,806	16.6%	101.9%
Rent & depreciation	40,030	20.0%	-	40,135	19.7%	100.3%
Amortization of goodwill	2,213	1.1%	-	2,184	1.1%	98.7%
Others	16,026	8.0%	-	17,315	8.5%	108.0%
Operating income	16,004	8.0%	17,000	14,916	7.3%	93.2%
Adastria(Non-consolidated, Amortization of goodwill excluded）	17,551	-	-	16,536	-	94.2%
Overseas business	▲ 238	-	-	▲ 384	-	-
N9&PG	▲ 190	-	-	-	-	-
Adastria Logistics	203	-	-	648	-	-
Ordinary income	16,185	8.1%	17,300	15,126	7.4%	93.5%
Net income	9,122	4.6%	12,000	11,575	5.7%	126.9%
EBITDA	24,612	12.3%	24,900	23,028	11.3%	93.6%
Depreciation and amortization	6,394	3.2%	5,700	5,928	2.9%	92.7%
Amortization of goodwill	2,213	1.1%	2,200	2,184	1.1%	98.7%
Capital expenditure	6,364			7,992		

1：The results of production division is excluded in FY 2016/1H.

2：Oversea business is the sum of five overseas subsidiaries: Hong Kong, Taiwan, China, Singapore, Korea.

3：N9&PG's production division was merged into Adastria Co., Ltd ; its logistics division became Adastria Logistics Co., Ltd. from second half of the fiscal year 2016.

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Consolidated Income Statement Highlights

- **Net sales: 203.6 billion yen (101.8% YoY)**
  Nets sales of existing stores in Japan were 102.5.% year on year.
  Solid performances by brands such as studio CLIP, Global Work, BAYFLOW, JEANASIS and niko and…

- **Gross profit margin: 56.3% (-0.3p YoY)**
  Although the cost of sales decreased, the price discount rate increased.
  Recorded an inventory revaluation loss of 1 billion yen at the end of FY2017/2

- **SG&A expense ratio: 49.0% (+0.4p YoY)**
  - Advertising & promotion: 3.1% (+0.2p YoY) Online coupons increased.
  - Rent & depreciation: 19.7% (-0.3p YoY) Depreciation decreased.
  - Others: 8.5% (+0.5p YoY) Credit card fees and delivery expenses increased due to sales growth in the online business.
  - Recorded 1.3 billion yen expense for actions aimed at business growth

- **Operating income: 14.9 billion yen (93.2% YoY)**
  Operating margin: 7.3% (-0.7p YoY); EBITDA margin: 11.3% (-1.0p YoY)

- **Net income: 11.5 billion yen (126.9% YoY)**
  3.7 billion yen gain on sales of investment securities was recorded as extraordinary income.
  Net income is about the same level YoY excluding gain on sales of investment securities due to the lower tax rate.

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Non-consolidated Income Statement

Millions of yen

(non-consolidated)	FY2016/02 Results	FY2017/02 Results	YoY
Net sales	187,917	194,611	103.6%
(Existing stores YoY)	105.2%	102.5%	
Global Work	36,145	38,286	105.9%
niko and...	22,824	24,712	108.3%
LOWRYS FARM	25,669	24,698	93.6%
studio CLIP	20,540	22,240	108.3%
LEPSIM	15,083	15,729	104.3%
Gross profit	105,634	108,043	102.3%
Gross margin	56.2%	55.5%	▲ 0.7p
SG&A expenses (before amortization of goodwill)	88,083	91,506	103.9%
SG&A ratio	46.9%	47.0%	+0.1p
Operating income (before amortization of goodwill)	17,551	16,536	94.2%
Operating margin	9.3%	8.5%	▲ 0.8p

Number of stores	FY2016/02	FY2017/02
Opened	64	79
Closed	91	56
Renovated	50	70
As of the end of fiscal year	1,220	1,243

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Overseas Business

Millions of yen

		FY2016/02	FY2017/02		
		Results	Results		
				YoY (JPY)	YoY (Local currency)
Net sales		12,382	10,743	86.8%	98.0%
	Hong Kong	7,734	6,576	85.0%	94.7%
	China	1,993	1,847	92.7%	109.5%
	Korea	878	763	87.0%	99.4%
	Taiwan	1,591	1,555	97.8%	110.2%
	Singapore	184	0	-	-
Operating income		▲ 238	▲ 384	-	-
	Hong Kong	217	▲ 229	-	-
	China	▲ 135	▲ 123	-	-
	Korea	▲ 333	▲ 212	-	-
	Taiwan	98	176	179.3%	202.2%
	Singapore	▲ 85	4	-	-

- In Hong Kong, overall retail sales fell due to the decline in mainland tourists. In addition, there was a loss because of sluggish winter clothing sales caused by warm weather.
- The newly opened official online store at one of the largest EC malls in China (T-mall) contributed to local-currency sales growth.
- Refreshment of product-line up to lower the discount rate almost doubled operating income in Taiwan.

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Consolidated Balance Sheet

Millions of yen

Consolidated	End of 2016/2		End of 2017/2		
		Ratio		Ratio	Compared with the end of 2016/2
Current assets	45,465	50.3%	48,178	53.3%	+2,713
Cash and deposits	19,460	21.5%	20,734	22.9%	+1,273
Inventories	15,076	16.7%	16,351	18.1%	+1,275
Fixed assets	44,988	49.7%	42,210	46.7%	▲2,778
Property, plant and equipment	11,215	12.4%	10,444	11.6%	▲771
Goodwill	5,493	6.1%	3,309	3.7%	▲2,184
Investments and other assets	26,807	29.6%	26,213	29.0%	▲594
Total assets	90,454	100.0%	90,389	100.0%	▲65
Liabilities	37,171	41.1%	34,353	38.0%	▲2,817
Interest-bearing debt	1,867	2.1%	2,027	2.2%	+160
Net assets	53,282	58.9%	56,035	62.0%	+2,752
Treasury stocks	▲1,824	▲2.0%	▲4,645	▲5.1%	▲2,821

- Cash and deposits : About 1.1 billion yen net cash increased.
- Inventories: 108.5% compared to last fiscal year end.
- Fixed assets : In addition to the decline of goodwill, other assets also decreased as sales of investment securities.
- Net assets : Conducted share repurchase of 2,564 million yen. Net assets ratio kept increased into 62.0%

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FY2018/02 Forecast (Consolidated)

Millions of yen

(Consolidated)	FY2017/02 Results 1H	FY2017/02 Results 2H	FY2017/02 Results Full-year	FY2018/02 forecast 1H	1H YoY	2H	2H YoY	Full-year	Full-year Ratio	Full-year YoY
Net sales	97,726	105,960	203,686	110,300	112.9%	122,700	115.8%	233,000	100.0%	114.4%
Operating income	8,054	6,861	14,916	5,500	68.3%	9,500	138.5%	15,000	6.4%	100.6%
Ordinary income	8,050	7,075	15,126	5,500	68.3%	9,400	132.9%	14,900	6.4%	98.5%
Net income	4,848	6,726	11,575	5,900	121.7%	6,000	89.2%	11,900	5.1%	102.8%
ROE	-	-	21.2%	-		-	-	19.8%	-	▲ 1.4p

EBITDA	11,903	11,124	23,028	9,600	80.7%	14,000	125.9%	23,600	10.1%	102.5%
Depreciation &Amortization	2,757	3,171	5,928	2,900	105.2%	3,300	104.1%	6,200	2.7%	104.6%
Amortization of goodwill	1,092	1,092	2,184	1,200	109.9%	1,200	109.9%	2,400	1.0%	109.9%

Capital expenditure			7,992					16,800		

- Consolidated net sales is forecasted to be 223 billion yen (114.4% YoY), based on the sales increase of existing Japan business, in addition to that ALICIA and Velvet, LLC become consolidated subsidiaries.
- Consolidated operating income is forecasted to stay flat year on year as the cost of establishing new business and new brand (LAKOLE), in addition to headquarter moving cost.
- Expected to post about 3.7 billion yen extraordinary gain on sale of investment securities.
- Capital expenditure is expected to increase due to the opening of new stores, and the investment on EC system, new brand, and the logistic facility.

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FY2018/02 Forecast (Non-consolidated)

Millions of yen

(non-consolidated)	Feb-17 Results	FY2018/02 Forecast	YoY
Net sales	194,611	207,000	106.4%
(Existing stores YoY)	102.5%	103.3%	
Gross profit	108,043	117,400	108.7%
Gross margin	55.5%	56.7%	+1.2p
SG&A expenses (before amortization of goodwill)	91,506	100,700	110.0%
SG&A ratio	47.0%	48.6%	+1.6p
Operating income (before amortization of goodwill)	16,536	16,700	101.0%
Operating margin	8.5%	8.1%	▲ 0.4p

Number of stores	FY2017/02	FY2018/02
Opened	79	97
Closed	56	37
Renovated	70	70
As of the end of fiscal year	1,243	1,303

- **Net sales: 207 billion yen（106.4% YoY）**
  Existing store sales is forecasted to grow 103.3% year on year, which includes the double-digit growth of existing online business.

- **Gross margin: 56.7%（+1.2p YoY）**
  By adjusting the inventory into appropriate level and decrease price discount rate. 0.5 point improvement is expected by no inventory revaluation loss.

- **SG&A ratio：48.6%（+1.6p YoY）**
  Expected to increase because of the system construction expense and headquarter moving cost

- **Number of stores in Japan:**
  Plan to open stores under these brand mainly: GLOBAL WORK・studio CLIP・LEPSIM・LAKOLE

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Number of Stores

	FY2017/02 Results					FY2018/02 Plan			
	end of FY16	Opened	Changed	Closed	end of FY17	Open	Change	Close	end of FY18
GLOBAL WORK	184	12	0	▲ 4	192	15	0	▲ 1	206
niko and ...	123	9	0	▲ 3	129	8	0	▲ 5	132
LOWRYS FARM	157	6	▲ 3	▲ 8	152	7	0	▲ 2	157
studio CLIP	171	12	0	▲ 1	182	11	0	▲ 1	192
LEPSIM	130	6	0	▲ 2	134	11	0	▲ 6	139
JEANASIS	83	3	0	▲ 6	80	4	0	▲ 9	75
RAGEBLUE	59	3	0	▲ 4	58	3	0	▲ 1	60
Heather	67	7	9	▲ 8	75	7	0	▲ 8	74
Others	246	21	▲ 6	▲ 20	241	31	0	▲ 4	268
Adastria Japan total	1,220	79	0	▲ 56	1,243	97	0	▲ 37	1,303
（Web store included）	(41)	0	0	(▲2)	(39)	(5)	(0)	(0)	(44)
ARICIA total	-	-	-	-	115	3	0	▲ 13	105
（Web store included）	-	-	-	-	(6)	(0)	(0)	0	(6)
Japan total	1,220	79	0	▲ 56	1,243	100	0	▲ 50	1,408
（Web store included）	(41)	0	0	(▲2)	(39)	(5)	(0)	(0)	(50)
Hong Kong	27	0	0	▲ 2	25	2	0	▲ 1	26
China	40	10	0	▲ 5	45	12	0	▲ 5	52
Taiwan	27	2	0	0	29	1	0	0	30
Korea	10	0	0	▲ 1	9	3	0	0	12
US	-	-	-	-	9	3	0	▲ 1	11
Oversea total	104	12	0	▲ 8	108	21	0	▲ 7	131
（Web store included）	(7)	(1)	(0)	0	(8)	(0)	(0)	(0)	(9)
Consolidated total	1,324	91	0	▲ 64	1,351	121	0	▲ 57	1,539

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Return to Shareholders

Millions of yen

	FY2013/02	FY2014/02	FY2015/02	FY2016/02	FY2017/02	FY2018/02 (Forecast)
Dividend per share (Yen)	60	37.5	37.5	65	75	75
Interim dividend	(25)	(25)	(15)	(20)	(35)	(35)
Total dividend (MM yen)	2,679	1,697	1,821	3,138	3,608	3,528
Net income (consolidated)	5,508	▲4,731	503	9,122	11,575	11,900
Amortization of goodwill	64	8,326	2,937	2,213	2,184	2,400
Dividend payout ratio	49.7%	-	361.5%	34.5%	30.9%	29.6%
(Amortization of goodwill excluded)		(47.8%)	(52.9%)	(27.8%)	(26.0%)	(24.7%)
Share repurchase (MM yen)	5,947	4,000	0	1,395	2,564	-

- We use a consolidated payout ratio before goodwill amortization of 30% as the basic policy.
- Year-end dividend of 75 yen per share for FY2017, as company forecasted. Although the net income is slightly unachieved the target, by excluding the goodwill amortization cost and the gain on sale of securities, which is not our fundamental business, the payout ratio is about the same level with our policy.
- We plan to pay year-end dividend of 75 yen per share for FY2018/02, same with FY2017/02.

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Ⅲ. To Become a Leading Global Multi-brand SPA Company

Representative Director, Chief Operating Officer
Masa Matsushita

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Progress toward the Three Year Medium-term Targets

Three year medium-term strategy FY2017/02～2019/02	
Strategy 1	Reinforce the multi-brand strategy (focusing on the brands to receive investments and pursuing horizontal synergies among brands)
Strategy 2	Strengthen core brands
Strategy 3	Create new categories, brands and business sectors linked to ideas for new lifestyles
Strategy 4	Expand the online business
Strategy 5	Implement advanced technologies to build stronger and more efficient business infrastructure
Corporate culture	

Targets FY2017/02～2019/02 (Announced April 2016)			FY2017/02 Actual results
Consolidated	Net sales	-	**203.6 billion yen**
Existing business (Japan ・ Overseas) *1	Net sales	Average 5% growth YoY	**203.6 billion yen (101.8% YoY)**
	Operating margin	Above 10%	**7.3%**
New business	Net sales	-	**-**
ROE *2		Around 15%	**16.6%**
Cash flows (EBITDA - Tax - payout)		48 billion yen	**9.9 billion yen**
Investments		28 billion yen	**9.7 billion yen**
Free cash flows		20 billion yen	**0.2 billion yen**

*1 Japan and overseas brand businesses which operations have started by FY2016/02
*2 Excluding gain on sales of investment securities

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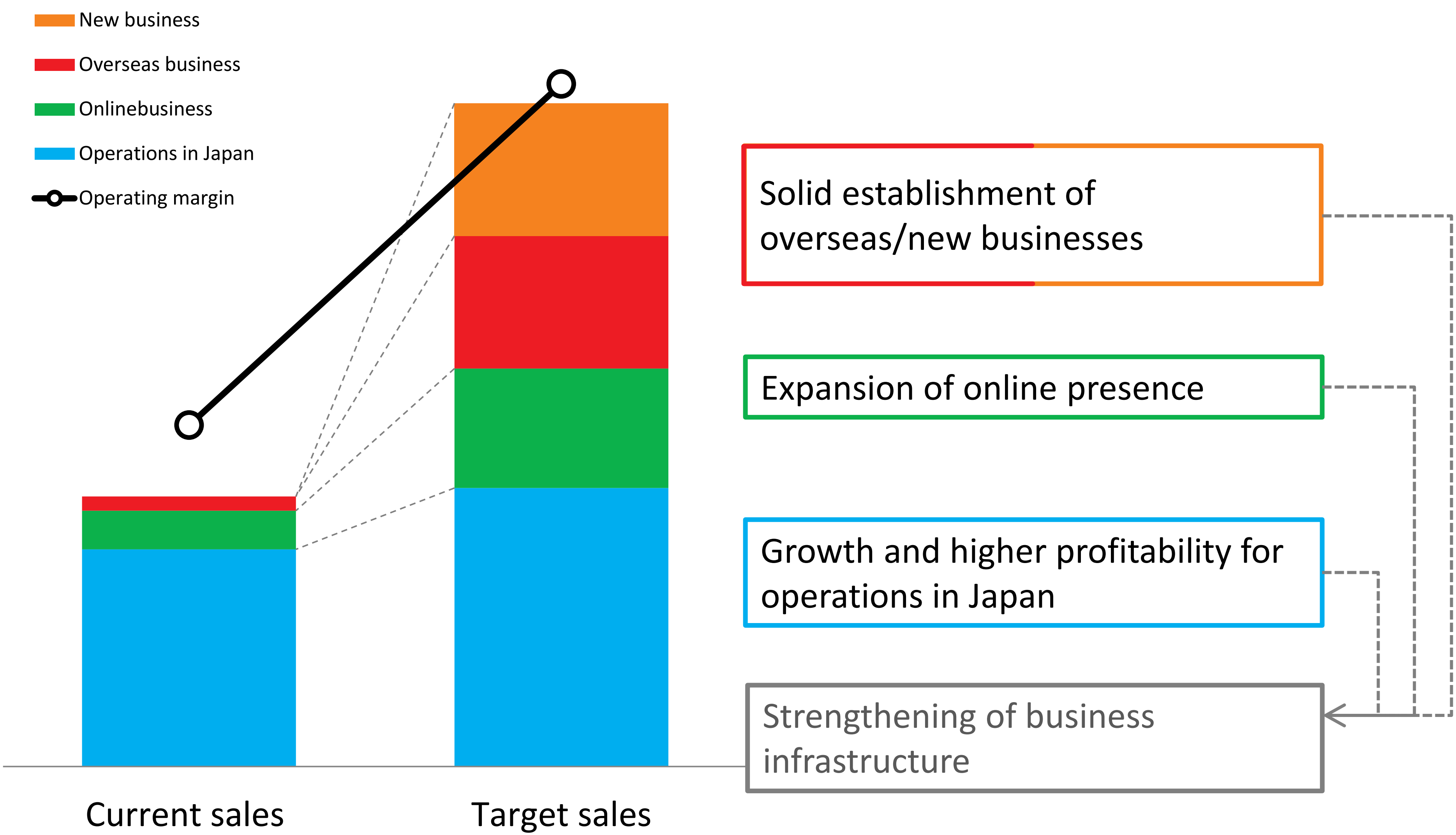
The Next Stage of Sales Growth from 200 Billion Yen



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Operations in Japan (Japan existing business)

■ Merchandise strategy

- Increase original products (self-production)
- Increase the product category besides the apparel during the off season.

■ Store strategy

- Use scrap-and-build to increase the number of large stores

New large stores in first half of 2017			Sq.m.
GLOBAL WORK	March	Aeon Mall Hamamatsu Ichino	1,200
	April	mozo wondercity	1,200
	June	Kobe Harborland umie	1,200
niko and ...	May	LaLaport TOKYO-BAY	780

niko and ... At narafamily
(500m2 with a café)

GLOBAL WORK at Aeon Mall Hamamatsu Ichino
(1,200m2 with special event space)

■ Operations strategy

- Operate stores with close ties to their respective host communities.
- Implement a branch system; the system is scheduled to start nationwide by the fall of 2017.

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Operations in Japan (Japan existing business)

Example of a successful brand BAYFLOW

BAYFLOW has grown into a 5 billion yen brand (annual sales) only three years after its spring 2014 launch. Achieved 73.4% sales growth in FY2017/2 and continues to gain popularity.

Styling offstyle.

BAYFLOW

■ Merchandise strategy (Ref/p4)

- Balance between fashion trends and quality.
- Launch new products frequently in all categories including men's apparel and miscellaneous products.

■ Store strategy

- Target mainly suburban shopping malls that was lack of upper fashion demands, and plan to open more stores this year.

■ Operations strategy

- Start the BAYFLOCAL campaign for stores with deep roots in their locations.
- Launch collaboration products that are designed by local artists.
- Hold creative workshops at stores.

Bayflocal WORK SHOP

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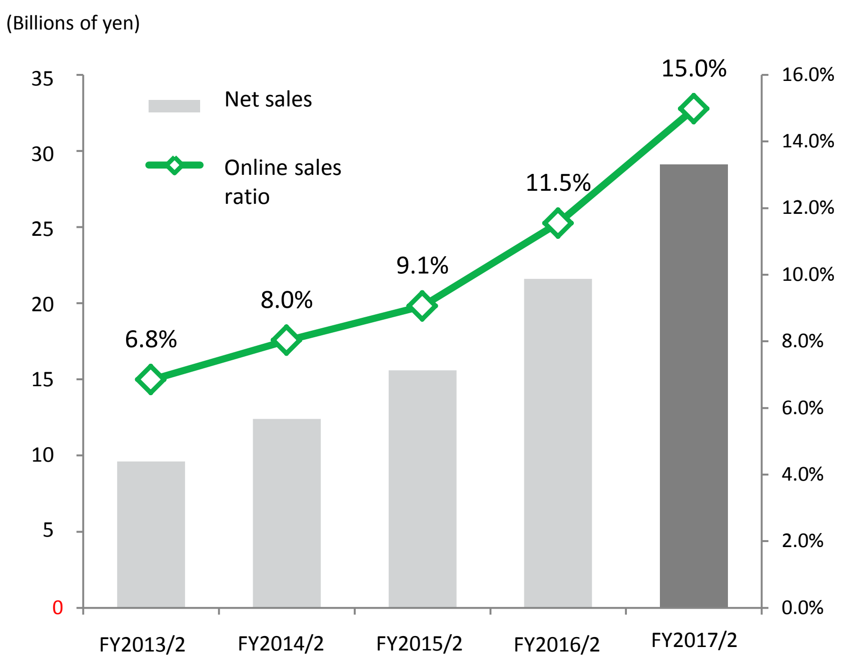
Online business

Net sales: 29.1 billion yen (134.4% YoY)
Online sales ratio for Japan sales: 15.0%
Members of company's e-commerce website [.st]: approx. 5.6 million



Note: FY2013/02 and FY2014/02 figures include TRINITY ARTS INC.

Initiatives for more growth

1) Expand the company's e-commerce website [.st]

- Renewal of [.st] smart phone app in March 2017: provide more personalized recommendations
- Added diamond member rank
- Plan to add 3 more brands (from subsidiary ARICIA) in December 2017

2) Increase the number of loyal customers

- Launch marketing campaigns to encourage customers to shop at both real and online stores.

3) Build a global EC infrastructure

- Start assembling a multi-currency, multi-language EC framework

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Oversea business

Officially started operations in the US, the one of world's largest clothing markets.
After the 10% minority investment in Marine Layer, acquired Velvet, a California-based contemporary fashion brand.

Velvet, LLC

・Apparel company
・Wholesale, 9 retail stores (including one web store)
・Net sales of $39.6 million in 2016

Purposes of the acquisition
1) Aim for further growth of Velvet by using the know-how and capital of Adastria
2) Gain new business know-how and cutting edge technology of the US retailing business
3) Strengthen the brand portfolio

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New Business

LAKOLE

From the concept movie

1st store AEONMALL RINKUSENNAN

Plan to open around 10 stores in Japan for FY2018/02

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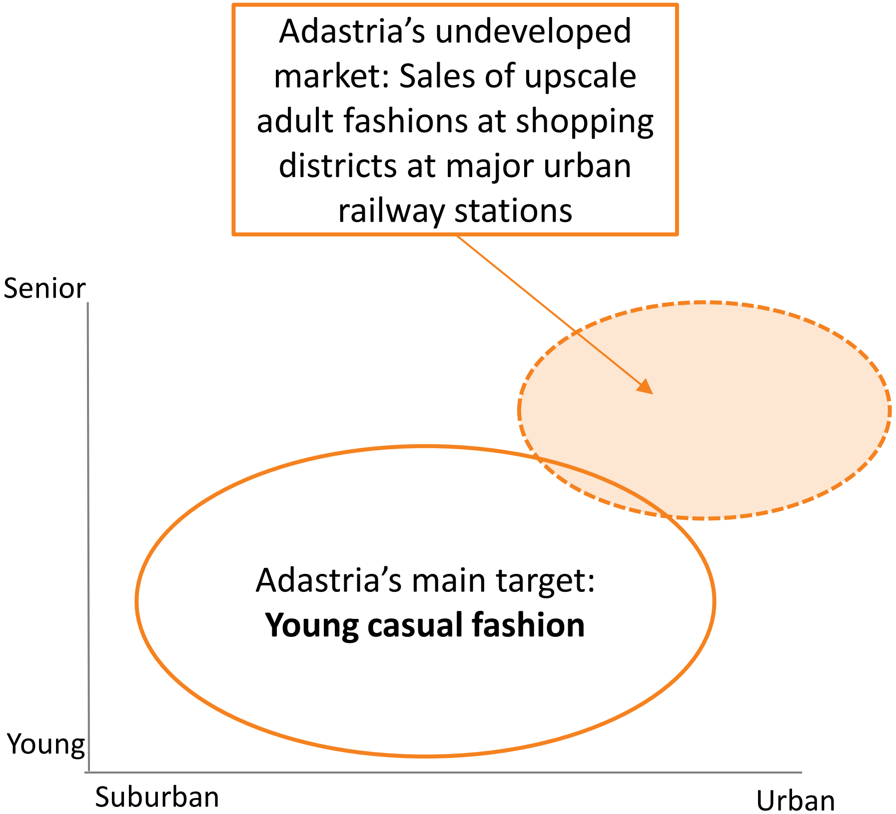
New Business

Established new subsidiary ELEMENT RULE Co., Ltd., which sells sophisticated adult fashions with a new look.



ELEMENT RULE Co., Ltd.

Established in March 2017

Wholly owned subsidiary of Adastria

High quality apparel reflecting current fashion trends for career women

Outlook

1) Expand in the urban adult fashion market
   - Plan to launch 2 brands in FY2019/2

2) Utilize Adastria's brand development and e-commerce business expertise

ADASTRIA

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Three Year Medium-Term Strategy (FY2018/02～2020/02)

Three year medium-term strategy (FY2017/02～2019/02) (Announced April 2016)		
Consolidated	Net sales	-
Existing business (Japan ・ Overseas) *1	Net sales	Average 5% growth YoY
	Operating margin	Above 10%
New business	Net sales	-
ROE *2		Around 15%
Cash flows (EBITDA - Tax - payout)		48 billion yen
Investments		28 billion yen
Free cash flows		20 billion yen

*1 Japan brand businesses which operations have started by FY2016/02
*2 Excluding gain on sales of investment securities

Three year medium-term strategy (FY2018/02～2020/02)		
Consolidated	Net sales	260 billion yen
Existing business (Japan)	Net sales	Average 5% growth YoY
	Operating margin	10%
Existing business (Overseas) ＋New business *3	Net sales	40 billion yen
ROE *2		Around 15%
Cash flows (EBITDA - Tax - payout)		50 billion yen
Investments		42 billion yen
Free cash flows		8 billion yen

*3 New business indicates the area that has planned in FY2017/02.
(LAKOLE ・ ARICIA ・ Element Rule ・ Velvet)

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Three Year Medium-term Strategy (FY2018/02- 2020/02)

FY2018/02～2020/02

Three year medium-term strategy

Strategy 1	**Make existing brands more powerful** -Increase profitability and efficiency of the existing brand business in Japan -Open more large stores for Global Work and niko and… and start overseas expansion for these brands
Strategy 2	**Develop new businesses based on changes in customers' needs and on omni-channel operations** Change our products and services to reflect shifts in preferences and buying habits of customers
Strategy 3	**Implement advanced technologies** to build stronger and more efficient business infrastructure
Strategy 4	**Improve the efficiency of value chain** Increase efficiency of multi-brand operations by establishing systems for the entire value chain, from planning and production to logistics and sales
Strategy 5	**Strengthen the corporate brand** Increase awareness of "Adastria"

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