

**Summary of Consolidated Financial Results**  
**for the Third Quarter of the Fiscal Year Ending February 28, 2018**  
**(Nine Months Ended November 30, 2017)**

[Japanese GAAP]

December 28, 2017

Company name: Adastria Co., Ltd. Listing: TSE 1st section  
 Stock code: 2685 URL: <http://www.adastria.co.jp>  
 Representative: Michio Fukuda, Representative Director, Chairman & CEO  
 Contact: Mika Takano, General Manager of Corporate Planning Department Tel: +81-3-5466-2010  
 Scheduled date of filing of Quarterly Report: January 12, 2018  
 Scheduled date of payment of dividend: -  
 Preparation of supplementary materials for quarterly financial results: Yes  
 Holding of quarterly financial results meeting: None

Note: The original disclosure in Japanese was released on December 28, 2017 at 15:00 (GMT +9).

(All amounts are rounded down to the nearest million yen)

**1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending February 28, 2018**  
**(March 1, 2017 – November 30, 2017)**

(1) Consolidated results of operations (cumulative) (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Net income attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended Nov. 30, 2017	163,269	9.6	6,890	(49.5)	7,238	(47.6)	6,594	(41.0)
Nine months ended Nov. 30, 2016	148,925	1.4	13,632	(5.0)	13,800	(5.9)	11,172	40.3

Note: Comprehensive income  
 Nine months ended Nov. 30, 2017: 3,612 million yen (down 58.0%)  
 Nine months ended Nov. 30, 2016: 8,602 million yen (down 19.2%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Nov. 30, 2017	140.19	-
Nine months ended Nov. 30, 2016	232.92	-

Reference: EBITDA  
 Nine months ended Nov. 30, 2017: 13,849 million yen (down 29.0%)  
 Nine months ended Nov. 30, 2016: 19,511 million yen  
 EPS before goodwill amortization  
 Nine months ended Nov. 30, 2017: 182.88 yen (down 31.5%)  
 Nine months ended Nov. 30, 2016: 267.07 yen

(\*) For more details regarding definition, computational method and other matters of these indices, please refer to the section "Explanation of Results of Operations" on page 2.

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
As of Nov. 30, 2017	99,312	56,610	57.0			
As of Feb. 28, 2017	90,389	56,035	62.0			

Reference: Shareholders' equity As of Nov. 30, 2017: 56,610 million yen As of Feb. 28, 2017: 56,035 million yen

**2. Dividends**

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Feb. 28, 2017	-	35.00	-	40.00	75.00
Fiscal year ending Feb. 28, 2018	-	35.00	-		
Fiscal year ending Feb. 28, 2018 (forecast)				40.00	75.00

Note: Revision to the most recently announced dividend forecast: None

**3. Consolidated Forecast for the Fiscal Year Ending February 28, 2018 (March 1, 2017 – February 28, 2018)**

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Net income attributable to owners of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	230,500	13.2	13,500	(9.5)	13,500	(10.8)	11,000	(5.0)	233.84

Note: Revision to the most recently announced consolidated forecast: None

Reference: EBITDA  
 Fiscal year ending Feb. 28, 2018 (forecast): 22,800 million yen (down 1.0%)  
 EPS before goodwill amortization  
 Fiscal year ending Feb. 28, 2018 (forecast): 291.23 yen (up 1.0%)

**\* Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

Newly added: 1 (Velvet, LLC)                      excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

Note: Please refer to the section “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements, Changes in Accounting Policies” on page 8 for further information.

(4) Number of outstanding shares (common stock)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Nov. 30, 2017:	48,800,000 shares	As of Feb. 28, 2017:	48,800,000 shares
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2) Number of treasury shares at the end of the period

As of Nov. 30, 2017:	1,759,215 shares	As of Feb. 28, 2017:	1,757,425 shares
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3) Average number of shares outstanding during the period

Nine months ended Nov. 30, 2017:	47,041,654 shares	Nine months ended Nov. 30, 2016:	47,968,327 shares
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Note 1: The current quarterly financial report is not subject to quarterly review procedures.

Note 2: Cautionary statement with respect to forward-looking statements

Forward-looking statements in this report are based on currently available information and certain assumptions judged to be reasonable. Actual results may differ significantly from these forecasts for a number of factors. Please refer to the section “1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecast and Other Forward-looking Statements” on page 3 regarding preconditions or other related matters for the forecast shown above.

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## 1. Qualitative Information on Quarterly Consolidated Financial Performance

### (1) Explanation of Results of Operations

Consolidated results

(Million yen)

	First nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 2016)	First nine months of FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)	YoY change (Amount)	YoY change (%)
Net sales	148,925	163,269	14,344	9.6
Operating profit	13,632	6,890	(6,742)	(49.5)
Ordinary profit	13,800	7,238	(6,562)	(47.6)
Net income attributable to owners of the parent	11,172	6,594	(4,578)	(41.0)

EBITDA	19,511	13,849	(5,661)	(29.0)
EPS before goodwill amortization (Yen)	267.07	182.88	(84.19)	(31.5)

Consolidated net sales in the first nine months (March 1-November 30, 2017) increased 9.6% year-on-year to 163,269 million yen, operating profit decreased 49.5% to 6,890 million yen, ordinary profit decreased 47.6% to 7,238 million yen, and net income attributable to owners of the parent decreased 41.0% to 6,594 million yen.

Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased 29.0% to 13,849 million yen and earnings per share (EPS) before goodwill amortization fell 31.5% to 182.88 yen. (\*)

One reason for the 9.6% increase in first nine months sales was the steady increase in Adastria sales in Japan, which was 3.6% higher than one year earlier. The transfer in the first quarter of *PAGEBOY* and other apparel brand operations to consolidated subsidiary ALICIA Co. Ltd. and inclusion of the sales of U.S.-based Velvet, LLC from the second quarter (this company was acquired in the first quarter) also contributed to the sales growth. In Japan, the brands *niko and...*, *STUDIO CLIP* and *BAYFLOW* performed well in the first nine months. (Please refer to the section “3. Supplementary Information, (1) Sales for Brands and Regions” for further information.)

The number of stores in Japan increased by 113 because of the inclusion of the operations of ALICIA. Overseas, the acquisition of Velvet, LLC added nine stores. In addition, we opened 118 stores (including 15 overseas) and closed 48 stores (including 12 overseas), resulting in a total network of 1,543 stores (including 120 overseas) at the end of November 2017. (Please refer to the section “3. Supplementary Information, (3) Number of Stores” for further information.)

The gross profit margin decreased 2.2 percentage points from one year earlier to 56.5% because the price discount rate increased for reducing inventories.

The ratio of selling, general and administrative (SG&A) expenses to sales increased 2.6 percentage points to 52.2%. This was attributable mainly to increased advertising expenditures for major brands, expenses for relocating the Tokyo head office and investments in IT system for future growth. As a result, the operating margin decreased 5.0 percentage points to 4.2%.

There was a gain on sales of investment securities of 4,373 million yen as extraordinary income. Extraordinary losses of 207 million yen for the impairment of store assets and 129 million yen for loss on sales of shares of subsidiaries and associates.

(\*) Since the fiscal year that ended in February 2014, the amortization of goodwill, which is not a cash expense, has created a large gap between changes in cash flows and changes in operating profit and all subsequent levels of earnings. Furthermore, comparisons with foreign companies are difficult because of differences in accounting standards of individual countries for recording goodwill amortization. As a result, we disclose EBITDA and EPS before goodwill amortization as reference financial indicators.

EBITDA

Operating profit + Depreciation + Amortization of goodwill (SG&A expenses)

EPS before goodwill amortization

(Net income attributable to owners of the parent + Amortization of goodwill (SG&A expenses and extraordinary losses) + Impairment losses (goodwill)) / Average number of shares outstanding during the period

**(2) Explanation of Financial Position**

Total assets increased 8,923 million yen from as of February 28, 2017 to 99,312 million yen as of November 30, 2017. This was mainly due to increases in notes and accounts receivable-trade of 7,988 million yen, inventories of 6,646 million yen, store interior equipment, net of 1,722 million yen, goodwill of 2,398 million yen and other under investments and other assets (deferred tax assets, etc.) of 2,098 million yen, while there were decreases in cash and deposits of 9,153 million yen and investment securities of 5,927 million yen.

Liabilities increased 8,347 million yen to 42,701 million yen. This was mainly due to increases in notes and accounts payable-trade of 6,013 million yen and accounts payable-other of 4,014 million yen, while there was a decrease in income taxes payable of 2,699 million yen.

Net assets increased 575 million yen to 56,610 million yen. This was mainly due to an increase in retained earnings of 3,563 million yen, while there was a decrease in valuation difference on available-for-sale securities of 2,919 million yen.

**(3) Explanation of Consolidated Forecast and Other Forward-looking Statements**

There are no revisions to the consolidated forecast for the current fiscal year that was announced on September 29, 2017.

**2. Quarterly Consolidated Financial Statements and Notes****(1) Quarterly Consolidated Balance Sheet**

(Million yen)

	FY2/17 (As of Feb. 28, 2017)	Third quarter of FY2/18 (As of Nov. 30, 2017)
<b>Assets</b>		
Current assets		
Cash and deposits	20,734	11,580
Notes and accounts receivable-trade	7,860	15,849
Inventories	16,351	22,998
Other	3,285	3,304
Allowance for doubtful accounts	(53)	(178)
Total current assets	48,178	53,553
Non-current assets		
Property, plant and equipment		
Store interior equipment, net	6,491	8,213
Other, net	3,952	4,286
Total property, plant and equipment	10,444	12,500
Intangible assets		
Goodwill	3,309	5,707
Other	2,242	4,080
Total intangible assets	5,552	9,788
Investments and other assets		
Investment securities	7,677	1,750
Lease and guarantee deposits	17,237	18,404
Other	1,523	3,621
Allowance for doubtful accounts	(225)	(308)
Total investments and other assets	26,213	23,469
Total non-current assets	42,210	45,758
Total assets	90,389	99,312
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	6,361	12,375
Electronically recorded obligations-operating	8,919	9,055
Short-term loans payable	2,027	2,862
Accounts payable-other	8,941	12,955
Income taxes payable	4,470	1,770
Provision for bonuses	2,195	1,117
Other provision	453	821
Other	295	634
Total current liabilities	33,665	41,593
Non-current liabilities		
Provision	241	356
Other	447	751
Total non-current liabilities	688	1,107
Total liabilities	34,353	42,701

(Million yen)

	FY2/17 (As of Feb. 28, 2017)	Third quarter of FY2/18 (As of Nov. 30, 2017)
Net assets		
Shareholders' equity		
Capital stock	2,660	2,660
Capital surplus	7,227	7,227
Retained earnings	47,413	50,976
Treasury shares	(4,645)	(4,650)
Total shareholders' equity	52,654	56,213
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,190	271
Deferred gains or losses on hedges	(19)	(25)
Foreign currency translation adjustment	209	151
Total accumulated other comprehensive income	3,380	397
Total net assets	56,035	56,610
Total liabilities and net assets	90,389	99,312

**(2) Quarterly Consolidated Statements of Income and Comprehensive Income****Quarterly Consolidated Statement of Income****(For the Nine-month Period)**

(Million yen)

	First nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 2016)	First nine months of FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)
Net sales	148,925	163,269
Cost of sales	61,468	71,093
Gross profit	87,456	92,176
Selling, general and administrative expenses	73,823	85,286
Operating profit	13,632	6,890
Non-operating income		
Dividend income	125	45
Foreign exchange gains	0	147
House rent income	84	81
Other	166	349
Total non-operating income	376	624
Non-operating expenses		
Interest expenses	10	14
Share of loss of entities accounted for using equity method	-	66
Loss on valuation of derivatives	97	85
Cost of lease revenue	69	70
Other	31	39
Total non-operating expenses	209	275
Ordinary profit	13,800	7,238
Extraordinary income		
Gain on sales of non-current assets	-	25
Gain on sales of investment securities	3,763	4,373
Gain on liquidation of subsidiaries and associates	77	-
Total extraordinary income	3,841	4,398
Extraordinary losses		
Impairment loss	38	207
Loss on disaster	85	-
Loss on valuation of investment securities	-	38
Loss on sales of shares of subsidiaries and associates	-	129
Loss on liquidation of subsidiaries and associates	10	-
Total extraordinary losses	134	375
Net income before income taxes	17,507	11,261
Income taxes-current	6,592	4,962
Income taxes-deferred	(257)	(295)
Total income taxes	6,334	4,666
Net income	11,172	6,594
Net income attributable to owners of the parent	11,172	6,594



**Quarterly Consolidated Statement of Comprehensive Income****(For the Nine-month Period)**

	(Million yen)	
	First nine months of FY2/17 (Mar. 1, 2016 – Nov. 30, 2016)	First nine months of FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)
Net income	11,172	6,594
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,587)	(2,919)
Deferred gains or losses on hedges	474	(5)
Foreign currency translation adjustment	(457)	(57)
Total other comprehensive income	(2,570)	(2,982)
Comprehensive income	8,602	3,612
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	8,602	3,612
Comprehensive income attributable to non-controlling interests	-	-

### **(3) Notes to Quarterly Consolidated Financial Statements**

#### **Going Concern Assumption**

Not applicable.

#### **Significant Changes in Shareholders' Equity**

Not applicable.

#### **Changes in Accounting Policies**

The Company has adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Statement No. 26, March 28, 2016) from the first quarter of the current fiscal year and partially revised its accounting method for determining the recoverability of deferred tax assets.

The Company has applied this implementation guidance in accordance with the transitional accounting treatments set forth in Paragraph 49 (4) of this implementation guidance. Accordingly, the differences between deferred tax assets and deferred tax liabilities determined by applying the applicable provisions of Paragraph 49 (3), Items 1 through 3 of the implementation guidance at the beginning of the first quarter of the current fiscal year and deferred tax assets and deferred tax liabilities at the end of the previous fiscal year are added to retained earnings at the beginning of the first quarter of the current fiscal year.

The effect of this matter on the quarterly consolidated financial statements at the beginning of the first quarter of the current fiscal year is insignificant.

### 3. Supplementary Information

#### (1) Sales for Brands and Regions

Brand / region	First nine months of FY2/18		YoY change (%)
	Sales (million yen)	Composition (%)	
GLOBAL WORK	28,806	17.7	1.5
niko and ...	20,820	12.8	16.5
STUDIO CLIP	18,024	11.0	10.2
LOWRYS FARM	17,030	10.4	(9.3)
LEPSIM	11,413	7.0	(2.6)
JEANASIS	9,140	5.6	(0.9)
RAGEBLUE	6,270	3.8	(4.6)
BAYFLOW	5,769	3.5	45.3
Others	28,855	17.7	2.3
Total (Adastria)	146,132	89.5	3.6
ALICIA CO., LTD.	6,961	4.3	-
Total (Japan)	153,093	93.8	8.5
Hong Kong	4,519	2.8	(6.7)
China	1,410	0.9	5.1
Taiwan	1,207	0.7	9.5
South Korea	699	0.4	21.9
USA (Note 3)	2,338	1.4	-
Total (Overseas)	10,175	6.2	29.4
Total (Group)	163,269	100.0	9.6

- Notes:
1. The number of stores is categorized by using brand operating divisions and geographic regions.
  2. The above figures are sales to external customers and do not include internal sales between consolidated subsidiaries.
  3. The USA figures include the second quarter sales of Velvet, LLC, a consolidated subsidiary acquired at the end of the first quarter.

#### (2) Sales for Merchandise Categories

Category	First nine months of FY2/18		YoY change (%)
	Sales (million yen)	Composition (%)	
Men's apparel (bottoms, tops)	22,326	13.7	4.3
Lady's apparel (bottoms, tops)	108,286	66.3	10.8
Others	32,656	20.0	9.6
Total	163,269	100.0	9.6

- Notes:
1. The others category includes additions to the provision for point card certificates and other items.
  2. The above figures are sales to external customers and do not include internal sales between consolidated subsidiaries.

**(3) Number of Stores**

Brand / region	Number of stores							As of Nov. 30, 2017
	As of Feb. 28, 2017	First nine months of FY2/18					Increase /decrease	
		Increase (Note 3)	Opened	Changed	Closed			
GLOBAL WORK	192	-	11	12	(2)	21	213	
niko and ...	129	-	9	-	(2)	7	136	
STUDIO CLIP	182	-	15	-	(1)	14	196	
LOWRYS FARM	152	-	7	-	(2)	5	157	
LEPSIM	134	-	11	-	(3)	8	142	
JEANASIS	80	-	4	-	(2)	2	82	
RAGEBLUE	58	-	3	1	(1)	3	61	
BAYFLOW	32	-	7	-	-	7	39	
Others	284	-	31	(13)	(11)	7	291	
Total (Adastria)	1,243	-	98	-	(24)	74	1,317	
ALICIA CO., LTD.	-	113	5	-	(12)	106	106	
Total (Japan)	1,243	113	103	-	(36)	180	1,423	
Hong Kong	25	-	-	-	(1)	(1)	24	
China	45	-	12	-	(11)	1	46	
Taiwan	29	-	-	-	-	-	29	
South Korea	9	-	2	-	-	2	11	
USA	-	9	1	-	-	10	10	
Total (Overseas)	108	9	15	-	(12)	12	120	
Total (Group)	1,351	122	118	-	(48)	192	1,543	

- Notes:
1. The number of stores is categorized by using brand operating divisions and geographic regions.
  2. The number of stores includes e-commerce websites of other companies and e-commerce websites of Adastria.
  3. "Increase" represents the increase in the number of stores resulting from the transfer of the operations of ALICIA and the consolidation of Velvet, LLC in the United States.

*This financial report is solely a translation of the Company's Kessan Tanshin (including attachments) in Japanese, which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*