Adastria Co., Ltd.

FY2018/02 Financial Results & Business Strategy

April , 2018

ADASTRIA

Table of Contents

Ⅰ. FY2018/02 Results
FY2019/02 Forecast

Member of the Board of Directors
Taiki Fukuda

Summary of FY2018/02

■Sales increased but earnings declined

- Consolidated net sales increased but operating income and ordinary income decreased.
- Net income decreased because of extraordinary losses such as impairment losses, including U.S. goodwill, and losses on restructuring of businesses in Hong Kong and China.

■Reasons for forecast revisions

- Sales were less than forecast because of shortfalls regarding to merchandising that meets customers' needs and the timing of product introductions that reflects different seasons of the year.
- Frequent price-off campaigns resulted in a lower gross profit margin due to the need to reduce prices to eliminate inventories and the higher price discount rate.
- The most recent forecast revision is a reduction in the net income forecast because of the extraordinary losses to build a base for reinvigorating business operations.

■Actions to improve performance

- Organizational changes to focus on improving profit.
- Strengthening data analysis in numerous areas such as demand prediction, and information sharing to improve earnings and make accurate management decisions.

Consolidated Income Statement

Millions of yen

	FY2017/02		FY2018/02		
	Results		Results		
		Ratio		Ratio	YoY
Net sales	203,686	100.0%	222,787	100.0%	109.4%
Adastria(Non-consolidated)	194,611	95.5%	200,206	89.9%	102.9%
Overseas *1 *2	10,743	5.3%	14,605	6.6%	136.0%
ALICIA *3	-	-	9,526	4.3%	-
Gross profit	114,666	56.3%	120,795	54.2%	105.3%
SG&A expenses	99,750	49.0%	115,790	52.0%	116.1%
Advertising & promotion	6,308	3.1%	7,728	3.5%	122.5%
Personnel	33,806	16.6%	38,346	17.2%	113.4%
Rent & depreciation	40,135	19.7%	46,217	20.7%	115.2%
Amortization of goodwill	2,184	1.1%	2,648	1.2%	121.3%
Others	17,315	8.5%	20,849	9.4%	120.4%
Operating income	14,916	7.3%	5,005	2.2%	33.6%
Adastria (Non-consolidated) (Amortization of goodwill excluded)	16,536	-	8,616	-	52.1%
Overseas *2 (Amortization of goodwill excluded)	▲ 384	-	▲ 1,905	-	-
ALICIA (Amortization of goodwill excluded)	-	-	▲ 58	-	-
Adastria Logistics	648	-	672	-	103.8%
Ordinary income	15,126	7.4%	5,428	2.4%	35.9%
Net income	11,575	5.7%	863	0.4%	7.5%

EBITDA	23,028	11.3%	15,141	6.8%	65.8%
Depreciation and amortization	5,928	2.9%	7,488	3.4%	126.3%
Amortization of goodwill	2,184	1.1%	2,648	1.2%	121.3%

Capital expenditure	7,992	13,247

*1：Oversea business is the sum of 6 overseas subsidiaries: Hong Kong, Taiwan, China, Singapore, Korea, USA.
*2：The sales and profit of Adastria USA, Inc. is recorded from FY2018/2Q.
*3：The sales and profit of ALICIA Co.,Ltd. is recorded from FY2018/1Q.

Consolidated Income Statement Highlights

■Net sales: 222.7 billion yen (+9.4% YoY)

Non-consolidated: Net sales of existing stores declined 0.6% year on year
Solid performances of some brands such as niko and ..., studio CLIP, BAYFLOW and repipi armario

Overseas: Weak performance in Asia and United States

Inclusion of sales and earnings of ALICIA Co.,Ltd. started in FY2018/1Q; of US subsidiary started in FY2018/2Q

■Gross profit margin: 54.2% (-2.1p YoY)

The price discount rate increased due to inventory control measures

■SG&A expense ratio: 52.0% (+3.0p YoY)

- Advertising & promotion: 3.5% (+0.4p YoY) Strengthened promotions for core brands and online marketing
- Personnel: 17.2% (+0.6p YoY) higher personnel expense ratio at physical stores and subsidiaries
- Rent & depreciation: 20.7% (+1.0p YoY) Increase due to head office relocation; includes IT system removal charge
- Others: 9.4% (+0.9p YoY) Increase in shipping expenses for small packages and credit card fees, IT system update, etc.

■Operating income: 5.0 billion yen (-66.4% YoY)

Operating margin: 2.2% (-5.1p YoY), EBITDA margin: 6.8% (-4.5p YoY)

■Net income: 0.8 billion yen (-92.5% YoY)

Posted 4.8 billion yen extraordinary losses in total, including write-down of Velvet, LLC ‘ goodwill, provision for loss on business restructuring in Hong Kong and China, and other items.

ADASTRIA

Non-consolidated Income Statement

Millions of yen

	FY2017/02	FY2018/02	
	Results	Results	YoY
Net sales	194,611	200,206	102.9%
（Existing stores YoY）	102.5%	99.4%	
Global Work *1	39,128	39,302	100.4%
niko and...	24,712	28,413	115.0%
studio CLIP	22,240	24,318	109.3%
LOWRYS FARM *1	25,685	23,518	91.6%
LEPSIM	15,729	15,308	97.3%
Gross profit	108,043	107,856	99.8%
Gross margin	55.5%	53.9%	▲ 1.6p
SG&A expenses (before amortization of goodwill)	91,506	99,239	108.5%
SG&A ratio	47.0%	49.6%	+2.5p
Operating income (before amortization of goodwill)	16,536	8,616	52.1%
Operating margin	8.5%	4.3%	▲ 4.2p

	FY2017/02	FY2018/02
Opened	79	99
Closed	56	67
Renovated	70	69
As of the end of fiscal year	1,243	1,275

*1：Due to the operation of 12 outlet stores has been transferred in from FY2018/3Q, net sales numbers has been adjusted for both FY2017/02 and FY 2018/02.

Overseas Business

Millions of yen

		FY2017/02	FY2018/02		
		Results	Results		
				YoY (JPY)	YoY (Local currency)
Net sales		10,743	14,605	136.0%	132.2%
	Hong Kong	6,576	6,255	95.1%	92.6%
	China	1,847	1,992	107.9%	106.8%
	Korea	763	976	127.8%	120.7%
	Taiwan	1,555	1,885	121.2%	110.7%
	Singapore	-	-	-	-
	USA	-	3,496	-	-
Operating income (before amortization of goodwill)		▲ 384	▲ 1,905	-	-
	Hong Kong	▲ 229	▲ 581	-	-
	China	▲ 123	▲ 343	-	-
	Korea	▲ 212	▲ 161	-	-
	Taiwan	176	170	96.7%	88.3%
	Singapore	4	-	-	-
	USA (before amortization of goodwill)	-	▲ 989	-	-

Consolidated Balance Sheet

Millions of yen

	End of 2017/2		End of 2018/2		
		Ratio		Ratio	Compared with the end of 2017/2
Current assets	48,178	53.3%	49,785	54.6%	+1,606
Cash and deposits	20,734	22.9%	19,446	21.3%	▲1,288
Inventories	16,351	18.1%	18,073	19.8%	+1,722
Fixed assets	42,210	46.7%	41,338	45.4%	▲872
Property, plant and equipment	10,444	11.6%	12,324	13.5%	+1,879
Goodwill	3,309	3.7%	1,959	2.2%	▲1,350
Investments and other assets	26,213	29.0%	22,799	25.0%	▲3,414
Total assets	90,389	100.0%	91,123	100.0%	+734
Liabilities	34,353	38.0%	40,092	44.0%	+5,738
Interest-bearing debt	2,027	2.2%	2,657	2.9%	+630
Net assets	56,035	62.0%	51,030	56.0%	▲5,004
Treasury stocks	▲4,645	▲5.1%	▲4,652	▲5.1%	▲6

- Cash and deposits: Net cash decreased by 1.9 billion yen.
- Inventories: Up 10.5% in part because of a newly consolidated subsidiary; non-consolidated increase was 3.0%, about the same as sales growth.
- Non-current assets: Decrease in goodwill and investment securities.
- Net assets: Maintained financial soundness with a 56.0% net assets ratio.

ADASTRIA

FY2019/02 Forecast (Consolidated)

Millions of yen

	FY2018/02	FY2019/02		
	Results	Forecast	Ratio	YoY
Net sales	222,787	227,000	100.0%	101.9%
Operating income	5,005	8,400	3.7%	167.8%
Ordinary income	5,428	8,700	3.8%	160.3%
Net income	863	4,400	1.9%	509.4%
ROE	1.6%	8.5%	-	+6.9p
EBITDA	15,141	16,000	7.0%	105.7%
Depreciation &Amortization	7,488	6,300	2.8%	84.1%
Amortization of goodwill	2,648	1,300	0.6%	49.1%
Capital expenditure	13,247	11,000		

- Consolidated net sales is forecasted to be 227 billion yen (+1.9% YoY),
- Consolidated operating income is forecasted to increase mainly due to the increase in domestic business profit and decrease in motorization of goodwill.
- Consolidated net income is forecast to increase because the extra 3.8 billion yen extraordinary losses including the goodwill impairment was posted at the end of last fiscal year.
- Capital expenditure is planned to use for store opening, EC & IT system, and logistic facility.

ADASTRIA

FY2019/02 Forecast (Non-consolidated)

Millions of yen

	FY2018/02	FY2019/02	
	Results	Forecast	YoY
Net sales	200,206	199,200	99.5%
(Existing stores YoY)	99.4%	101.0%	
Gross profit	107,856	107,700	99.9%
Gross margin	53.9%	54.1%	+0.2p
SG&A expenses (before amortization of goodwill)	99,239	98,800	99.6%
SG&A ratio	49.6%	49.6%	+0.0p
Operating income (before amortization of goodwill)	8,616	8,900	103.3%
Operating margin	4.3%	4.5%	+0.2p

Number of stores	FY2018/02	FY2019/02 Forecast
Opened	99	44
Closed	67	60
Other change *1	-	▲68
Renovated	69	40
As of the end of fiscal year	1,275	1,191

*1 Within "other change" the stores transferred from parent company into subsidiary ELEMENT RULE Co.,Ltd in March are included, the stores planned to be transferred from ALICIA Co.,Ltd. into parent company in August are not included.

- Two brands(BARNYARDSTORM, BABYLONE) has been transferred into subsidiary ELEMENT RULE Co.,Ltd in March, causing the forecast decrease in net sales by 9 billion yen. Three brands will be transferred from ALICIA Co.,Ltd. into parent company in August, causing net sales forecast increase by 4 billion yen.
- Gross margin will increase by decreasing the price discount. The SG&A ratio will stay because the increase of promotion and new business expense even though the office relocation expense has decreased.
- The judgement on opening new stores is made carefully considering the market environment.

Number of Stores

	FY2018/02						FY2019/02 Forecast			
	end of FY2017/02	Increased *1 *3	Opened	Changed	Closed	end of FY2018/02	Open	Change	Close	end of FY2019/02
GLOBAL WORK	192	-	11	12	▲ 5	210	7	0	0	217
niko and ...	129	-	9	0	▲ 6	132	7	0	▲ 1	138
studio CLIP	182	-	15	0	▲ 2	195	3	0	▲ 6	192
LOWRYS FARM	152	-	7	0	▲ 10	149	5	0	▲ 8	146
LEPSIM	134	-	11	0	▲ 7	138	3	0	▲ 7	134
JEANASIS	80	-	4	0	▲ 8	76	1	0	0	77
RAGEBLUE	58	-	3	1	▲ 5	57	3	0	0	60
BAYFLOW	32	-	8	0	▲ 1	39	9	0	0	48
Others	284	-	31	▲ 13	▲ 23	279	6	▲ 68	▲ 38	179
Adastria Japan total	1,243	-	99	0	▲ 67	1,275	44	▲ 68	▲ 60	1,191
（Web store included）	(39)	-	(6)	0	0	(45)	(4)	(▲5)	(0)	(44)
ALICIA total *1	-	113	6	0	▲ 19	100	1	0	▲ 26	75
（Web store included）	-	(6)	(4)	0	(▲3)	(7)	(1)	(0)	0	(8)
ELEMENT RULE total *2	-	-	-	-	-	-	13	68	▲ 2	79
（Web store included）	-	-	-	-	-	-	(4)	(5)	(0)	(9)
Japan total	1,243	113	105	0	▲ 86	1,375	58	0	▲ 88	1,345
（Web store included）	(39)	(6)	(10)	(0)	(▲3)	(52)	(9)	(0)	(0)	(61)
Hong Kong	25	-	2	▲ 2	▲ 1	24	2	0	▲ 9	17
China *3	45	-	15	0	▲ 11	49	0	0	▲ 39	10
Taiwan	29	-	2	0	0	31	4	0	▲ 4	31
Korea	9	-	3	▲ 1	0	11	0	0	0	11
US	-	9	2	0	0	11	0	0	0	11
Oversea total	108	9	24	▲ 3	▲ 12	126	6	0	▲ 52	80
（Web store included）	(8)	(1)	(0)	(1)	(0)	(8)	(1)	(0)	(0)	(9)
Consolidated total	1,351	122	129	▲ 3	▲ 98	1,501	64	0	▲ 140	1,425

*1：Stores of three brands from ALICIA Co.,Ltd. will be transferred into parent company from August 2018.

*2：Sores of two brands transferred from parent company into subsidiary ELEMENT RULE Co.,Ltd in March 2018.

*3：Distributor (18 stores as of December 31,2017) are included.

Return to Shareholders

(Millions of yen)

		FY2014/02	FY2015/02	FY2016/02	FY2017/02	FY2018/02	FY2019/02 (Forecast)
Dividend per share (Yen)		37.5	37.5	65	75	50	50
	Interim dividend	(25)	(15)	(20)	(35)	(35)	(20)
Total dividend (MM yen)		1,697	1,821	3,138	3,608	2,379	2,379
Net profit (consolidated)		▲4,731	503	9,122	11,575	863	4,400
Amortization of goodwill		8,326	2,937	2,213	2,184	4,712	1,300
Dividend payout ratio		-	361.5%	34.5%	30.9%	272.3%	53.5%
(Amortization of goodwill excluded)		(47.8%)	(52.9%)	(27.8%)	(26.0%)	(42.2%)	(41.3%)
Share repurchase (MM yen)		4,000	0	1,395	2,564	0	-

*1: Dividends for FY2016/02 and prior years are adjusted for the 2-for-1 stock split on March 1, 2016.

*2: Amortization of goodwill includes impairment losses recognized as an extraordinary loss.

- Dividend policy: Place priority on he basic policy of maintaining a consolidated payout ratio of 30% before goodwill amortization while considering stability.
- For FY2018/02, the interim dividend and the year-end dividend were 35 yen and 15 yen, respectively, resulting in a FY dividend of 50 yen. Dividend payout ratio before good will amortization is 42.2%.
- We plan to pay a dividend of 50 yen per share for FY2019/02, same as for FY2018/02.

Ⅱ. Initiatives for Next Growth

Executive Vice President
Osamu Kimura

Operations in Japan

Performing well as a leading life style brand

niko and ...

■ Merchandise initiatives

- A multi-faceted merchandise lineup that does not rely solely on apparel has been successful
- Adding value to merchandise raised sales of products for men by more than 50% in FY2018/02
- Extensive activities involving popular merchandise that uses tie-ups with other companies

Collaboration with “meiji THE Chocolate”

■ Store initiatives

- For the planned growth in the number of large stores, expand horizontally merchandising that until now was centered only at the flagship niko and … TOKYO store.
- Steadily increasing the number of stores selling products for men

LaLaport TOKYO-BAY

■ Marketing initiatives

- TV commercials and other activities linked to 10th anniversary promotions in 2017 made more people aware of the niko and … brand.
- Launched TV commercials in March 2018 featuring a new brand “ambassador”

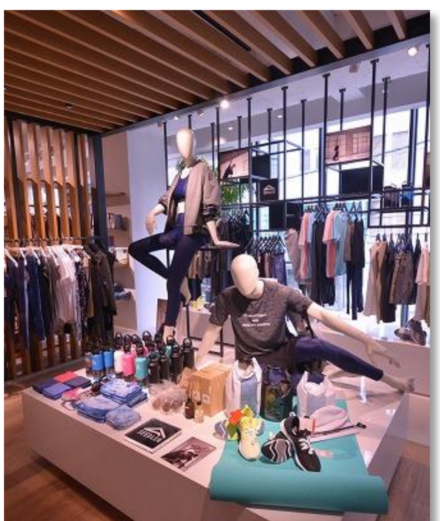
Operations in Japan

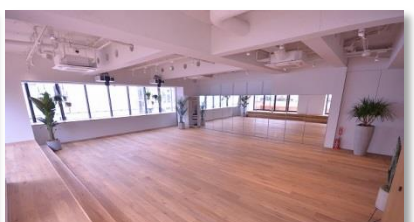
Opening large flagship stores embodying brand worldviews

GLOBAL WORK

- ■ March 2018: Opening of flagship Shibuya store
- Offer a source of new ideas from Shibuya to the world
- Display the brand's worldview by selling a lineup of carefully selected fashions that are the nucleus of the GLOBAL WORK brand

HAPPY story, Shibuya story.





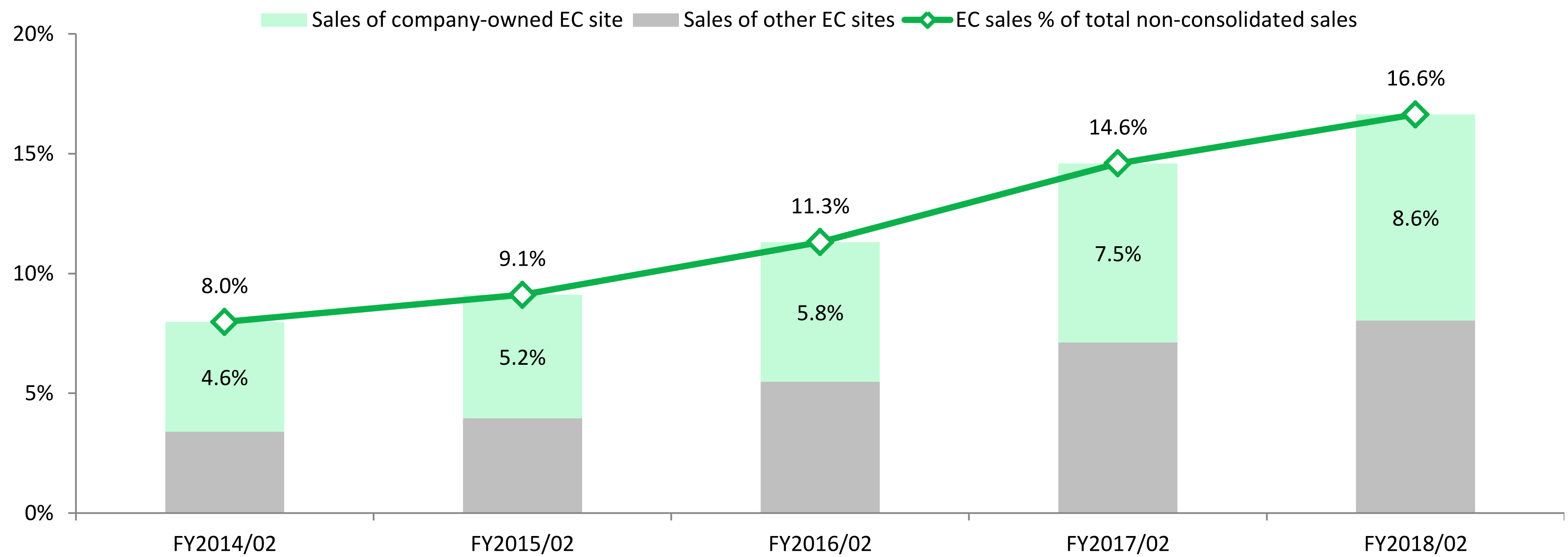
BAYFLOW

- ■ March 2018: Opening of flagship Kichijoji store
- As "a store with many entrances to good health," this flagship store has a café and yoga studio to function as a life style-oriented destination.
- Merchandise includes items for kids

Online Business

Steady growth of online business

- Net sales: 33.3 billion yen (+17.3% YoY)
- Online business ratio: 16.6% (company-owned EC site: approx. 8.6%)
- Member of company-owned EC site [.st]: approx. 7 million (+1.4 million vs. FY2017/02)

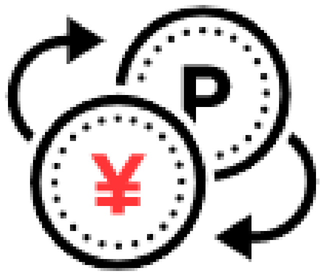


* FY2014/02 figures include TRINITY ARTS INC.
* The EC sales ratio in Japan in prior years has been revised to reflect the booking rule for sales recognition of company owned E-commerce site.

Online Business

Upgrade the bonus point program for faster growth of new members and more purchases by existing members

[.st] Major Initiatives for FY2019/02



Upgrade the bonus point program

- Raise the point distribution ratio
- Use the approx. 1,300 stores nationwide to attract new members
- Simplify the registration process for new members
- Provide more ways (many merchandise brands) for members to use points
- Improve services by analyzing data about members

→

- Faster growth in the number of members
- Reactivate existing members

Overseas Business

Rebuilding of Hong Kong/China operations has started

■Hong Kong and China

- Started rebuilding operations, including a dramatic downsizing of the COLLECT POINT multi-brand shop business.
- Brand headquarters in Japan are taking the lead in creating merchandise that matches customers' needs.

■South Korea and Taiwan

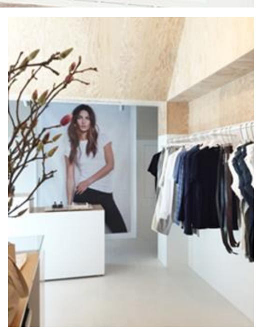
- As in Tokyo, use large flagship stores to allow people to experience the worldview of niko and …
- In Taiwan, as in Korea, sales have been consistently strong at the Taipei store opened in October 2017.

niko and ... TAIPEI

Overseas Business

In the United States, the goal is growth of directly managed retail stores while maintaining the performance of the wholesale business.

velvet
BY GRAHAM & SPENCER



Major Initiatives for 2018

- Maintain quality suppliers and customers in the wholesale business
- Expand merchandise lineup for meeting seasonal demand
- Create a standard store model of directly managed retail stores
- Improve purchasing and inventory management accuracy
- Make buying products easier for customers by centralizing store and EC inventory management

→

- Maintain wholesale performance
- Expand direct managed retail stores

New Business

At ELEMENT RULE Co., Ltd., four trendy brands for adults seeking tasteful and sophisticated fashions

Launched in March 2018

Chaos

Curensology

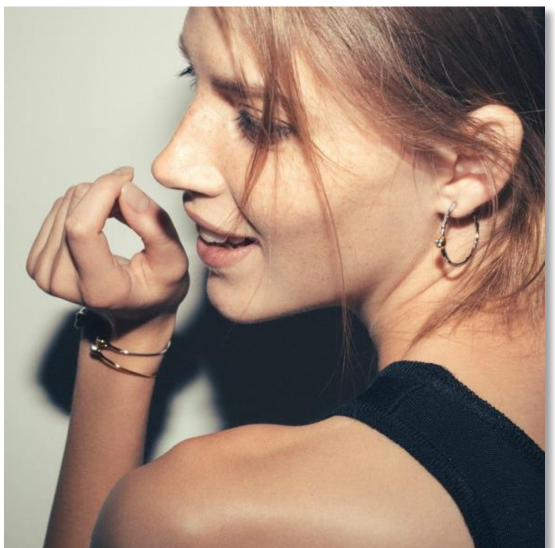
BARNYARDSTORM

BABYLONE

Two brands has been transferred from parent company in March 2018.

New Business

ADASTRIA is also starting to create brands in new categories with the goal of providing women with more sources of beauty and enjoyment.

Accessories	Intimates	Cosmetics
PAS TIERRA	bijorie	CALEIDO ET BICE
		C ET B
Launched in November 2017	Launched in March 2018	To be launched in fall 2018

Ⅲ. Three Year Plan (FY2019/02–FY2021/02)

Senior Vice President, General Headquarters of Management
Masayuki Kindo

Three Year Plan (FY2019/02–FY2021/02)

FY2021/02　Target	
Operating margin	8.0%
ROE*	Approx. 15%

*Excluding the gain outside of core business activities such as gain on sales of investment securities.

Three Year Growth Strategies (FY2019/02–FY2021/02)

Growth Strategies (FY2019/02–FY2021/02)	
Strategy 1: Build an infrastructure that can consistently increase earnings	**Maintain proper inventory levels and control price discounts** Use demand forecasts for proper inventory levels and reduce reliance on sales featuring discounted prices.
	Product planning based on an accurate understanding of customers Build a product planning framework that unifies R&D, production, merchandising, store operations, marketing and other activities.
Strategy 2: Transform into businesses growth opportunities created by changes in society and in customers' needs	**Use information technology for a highly appealing purchasing experience** Upgrade the bonus point program to increase the number of members and raise the frequency of purchases.
	Rebuild overseas operations Significantly downsize the COLLECT POINT business in Hong Kong and China to make this business profitable.
	Start operations in new business domains Constantly work on creating new businesses and make recently launched businesses profitable as quickly as possible.
Strategy 3: Build a foundation that can support innovation and growth	**Make management of the entire ADASTRIA Group more powerful** Clarify the decision-making process and create a sophisticated data analysis environment that encompasses all of the Group's activities.

Create a business framework that looks ahead to the world in 2025

ADASTRIA