

**Summary of Consolidated Financial Results**  
**for the First Quarter of the Fiscal Year Ending February 28, 2019**  
**(Three Months Ended May 31, 2018)**

[Japanese GAAP]

June 29, 2018

Company name: Adastria Co., Ltd.

Listing: TSE 1st section

Stock code: 2685

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Scheduled date of filing of Quarterly Report: July 13, 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 June 29, 2018 at 15:00 (GMT +9).

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

**1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending February 28, 2019**  
**(March 1, 2018 – May 31, 2018)**

(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	%
Three months ended May 31, 2018	51,392	(4.9)	1,278	(66.6)	1,358	(65.1)	239	(95.4)
Three months ended May 31, 2017	54,066	11.4	3,833	(26.6)	3,892	(26.3)	5,220	75.0

Note: Comprehensive income Three months ended May 31, 2018: 46 million yen (down 98.0%)

Three months ended May 31, 2017: 2,277 million yen (down 39.8%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended May 31, 2018	5.08	-
Three months ended May 31, 2017	110.97	-

Reference: EBITDA Three months ended May 31, 2018: 3,387 million yen (down 43.6%)

Three months ended May 31, 2017: 6,004 million yen

EPS before goodwill amortization Three months ended May 31, 2018: 17.21 yen (down 86.1%)

Three months ended May 31, 2017: 123.55 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 3.

Note: The provisional accounting treatment for a business combination was finalized at the end of fiscal year ended on February 28, 2018. As a result, figures for the three months ended May 31, 2017 reflect a significant revision of the initial allocation of the acquisition cost for the business combination.

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
As of May 31, 2018	90,218		50,439		55.9	
As of Feb. 28, 2018	91,123		51,030		56.0	

Reference: Shareholders' equity As of May 31, 2018: 50,439 million yen As of Feb. 28, 2018: 51,030 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, 2018	-	35.00	-	15.00	50.00
Fiscal year ending Feb. 28, 2019	-	-	-	-	-
Fiscal year ending Feb. 28, 2019 (forecast)	-	20.00	-	30.00	50.00

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

**3. Consolidated Forecast for the Fiscal Year Ending February 28, 2019 (March 1, 2018 – February 28, 2019)**

(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	227,000	1.9	8,400	67.8	8,700	60.3	4,400	409.4	93.54	

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

Reference: EBITDA Fiscal year ending Feb. 28, 2019 (forecast): 16,000 million yen (up 5.7%)

EPS before goodwill amortization Fiscal year ending Feb. 28, 2019 (forecast): 121.17 yen (up 2.2%)

**\* Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

Newly added: -

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: None

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

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of outstanding shares (common stock)

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

As of May 31, 2018:	48,800,000 shares	As of Feb. 28, 2018:	48,800,000 shares
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2) Number of treasury shares at the end of the period

As of May 31, 2018:	1,736,409 shares	As of Feb. 28, 2018:	1,759,875 shares
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3) Average number of shares outstanding during the period

Three months ended May 31, 2018:	47,043,916 shares	Three months ended May 31, 2017:	47,042,328 shares
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Note 1: The current quarterly financial report is not subject to quarterly review procedures by certified public accountants or auditing firms.

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 three months of FY2/18 (Mar. 1, 2017 – May 31, 2017)	First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)	YoY change (Amount)	YoY change (%)
Net sales	54,066	51,392	(2,673)	(4.9)
Operating profit	3,833	1,278	(2,554)	(66.6)
Ordinary profit	3,892	1,358	(2,534)	(65.1)
Net income attributable to owners of the parent	5,220	239	(4,981)	(95.4)
EBITDA	6,004	3,387	(2,616)	(43.6)
EPS before goodwill amortization (Yen)	123.55	17.21	(106.34)	(86.1)

Consolidated net sales in the first quarter (March 1 - May 31, 2018) decreased 4.9% year-on-year to 51,392 million yen, operating profit decreased 66.6% to 1,278 million yen, ordinary profit decreased 65.1% to 1,358 million yen, and net income attributable to owners of the parent decreased 95.4% to 239 million yen.

Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased 43.6% to 3,387 million yen and earnings per share (EPS) before goodwill amortization fell 86.1% to 17.21 yen. (\*)

Overseas sales increased 44.8% due to the sales of Velvet, LLC, a U.S. company acquired in the previous fiscal year, and the start of *niko and ....* operations in Taiwan. Sales in Japan decreased 7.5% because of weak sales at brands other than *niko and ...*. The result was a 4.9% decrease in consolidated net sales. Slow sales of summer merchandise that was launched in the middle of April was one reason for lower sales in Japan. A brief period of unfavorable weather in May also had a negative impact on sales. (Please refer to the section “3. Supplementary Information, (1) Sales for Brands and Regions” for further information.)

We opened 39 stores (none overseas) and closed 24 stores (including 10 overseas), resulting in a total network of 1,518 stores (including 116 overseas) at the end of May 2018. (Please refer to the section “3. Supplementary Information, (3) Number of Stores” for further information.)

The gross profit margin decreased 2.0 percentage points from one year earlier to 57.4% mainly because of higher price discount rate to reduce inventories.

The ratio of selling, general and administrative (SG&A) expenses to sales increased 2.7 percentage points to 55.0%. SG&A expenses were about the same as one year earlier in part because of an increase in e-commerce sales promotion expenses and higher delivery expenses caused by an increase in delivery fees. As a result, the operating margin decreased 4.6 percentage points to 2.5%.

There were extraordinary losses of 240 million yen for the impairment of store assets.

On March 1, 2018, Adastria conducted an absorption-type split where the *BARNYARDSTORM* and *BABYLONE* business units of Adastria were divested and then transferred to consolidated subsidiary ELEMENT RULE Co., Ltd. *BARNYARDSTORM* and *BABYLONE* both target market sectors that are similar to the “select market” that is the core market sector of ELEMENT RULE. Consolidating these two business units to ELEMENT RULE is therefore expected to further strengthen the Adastria’s position in the select market.

(\*) 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 decreased 904 million yen from as of February 28, 2018 to 90,218 million yen as of May 31, 2018. This was mainly due to a decrease in cash and deposits of 7,036 million yen, while there were increases in notes and accounts receivable-trade of 3,564 million yen, inventories of 1,835 million yen, and store interior equipment of 682 million yen.

Liabilities decreased 313 million yen to 39,778 million yen. This was mainly due to decreases in electronically recorded obligations-operating of 1,585 million yen and provision for bonuses of 953 million yen, while there was an increase in accounts payable-other of 2,187 million yen.

Net assets decreased 590 million yen to 50,439 million yen. This was mainly due to a decrease in retained earnings of 474 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 April 4, 2018.

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

(Million yen)

	FY2/18 (As of Feb. 28, 2018)	First quarter of FY2/19 (As of May 31, 2018)
<b>Assets</b>		
Current assets		
Cash and deposits	19,446	12,409
Notes and accounts receivable-trade	8,810	12,375
Inventories	18,073	19,908
Other	3,570	3,642
Allowance for doubtful accounts	(116)	(140)
Total current assets	49,785	48,195
Non-current assets		
Property, plant and equipment		
Store interior equipment, net	7,301	7,983
Other, net	5,022	5,423
Total property, plant and equipment	12,324	13,406
Intangible assets		
Goodwill	1,959	1,373
Other	4,255	4,537
Total intangible assets	6,214	5,910
Investments and other assets		
Investment securities	1,101	1,030
Lease and guarantee deposits	18,263	18,122
Other	3,711	3,822
Allowance for doubtful accounts	(278)	(270)
Total investments and other assets	22,799	22,705
Total non-current assets	41,338	42,022
Total assets	91,123	90,218
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	10,227	9,970
Electronically recorded obligations-operating	9,898	8,313
Short-term loans payable	2,657	2,775
Accounts payable-other	9,418	11,605
Income taxes payable	1,322	1,337
Provision for bonuses	2,413	1,460
Provision for point card certificates	698	995
Provision for loss on business liquidation	1,141	1,072
Other provision	140	297
Other	527	609
Total current liabilities	38,446	38,437
Non-current liabilities		
Provision	346	218
Other	1,299	1,121
Total non-current liabilities	1,645	1,340
Total liabilities	40,092	39,778

(Million yen)

	FY2/18 (As of Feb. 28, 2018)	First quarter of FY2/19 (As of May 31, 2018)
Net assets		
Shareholders' equity		
Capital stock	2,660	2,660
Capital surplus	7,227	7,227
Retained earnings	45,245	44,770
Treasury shares	(4,652)	(4,575)
Total shareholders' equity	50,480	50,082
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	235	166
Deferred gains or losses on hedges	(76)	4
Foreign currency translation adjustment	391	186
Total accumulated other comprehensive income	550	357
Total net assets	51,030	50,439
Total liabilities and net assets	91,123	90,218

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

(Million yen)

	First three months of FY2/18 (Mar. 1, 2017 – May 31, 2017)	First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)
Net sales	54,066	51,392
Cost of sales	21,976	21,870
Gross profit	32,089	29,521
Selling, general and administrative expenses	28,255	28,243
Operating profit	3,833	1,278
Non-operating income		
Dividend income	33	2
Foreign exchange gains	-	60
House rent income	28	25
Other	94	89
Total non-operating income	156	176
Non-operating expenses		
Interest expenses	5	8
Share of loss of entities accounted for using equity method	21	-
Loss on valuation of derivatives	22	59
Cost of lease revenue	24	23
Other	23	5
Total non-operating expenses	97	96
Ordinary profit	3,892	1,358
Extraordinary income		
Gain on sales of investment securities	4,373	-
Total extraordinary income	4,373	-
Extraordinary losses		
Impairment loss	73	240
Total extraordinary losses	73	240
Net income before income taxes	8,191	1,117
Income taxes-current	3,035	1,138
Income taxes-deferred	(64)	(259)
Total income taxes	2,971	878
Net income	5,220	239
Net income attributable to owners of the parent	5,220	239



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

(Million yen)

	First three months of FY2/18 (Mar. 1, 2017 – May 31, 2017)	First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)
Net income	5,220	239
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,996)	(69)
Deferred gains or losses on hedges	(23)	80
Foreign currency translation adjustment	77	(204)
Total other comprehensive income	(2,943)	(193)
Comprehensive income	2,277	46
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	2,277	46
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.

### 3. Supplementary Information

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

Brand / region	First three months of FY2/19		YoY change (%)
	Sales (million yen)	Composition (%)	
GLOBAL WORK	9,325	18.1	(9.8)
niko and ...	7,393	14.4	12.3
STUDIO CLIP	5,372	10.5	(1.3)
LOWRYS FARM	5,324	10.4	(19.1)
LEPSIM	3,461	6.7	(7.9)
JEANASIS	2,784	5.4	(8.1)
BAYFLOW	1,921	3.7	(2.2)
RAGEBLUE	1,839	3.6	(14.2)
Others	6,510	12.7	(28.3)
Total (Adastria)	43,933	85.5	(10.2)
ALICIA CO., LTD.	2,067	4.0	(17.9)
ELEMENT RULE Co., Ltd. (Note 3)	1,592	3.1	-
Other consolidated subsidiaries	0	0.0	-
Total (Japan)	47,593	92.6	(7.5)
Hong Kong	1,492	2.9	(5.4)
China	428	0.9	(1.9)
Taiwan	624	1.2	48.3
South Korea	273	0.5	46.4
USA	979	1.9	-
Total (Overseas)	3,798	7.4	44.8
Total (Group)	51,392	100.0	(4.9)

- 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. On March 1, 2018, Adastria conducted an absorption-type split where the *BARNYARDSTORM* and *BABYLONE* business units of Adastria were divested and then transferred to consolidated subsidiary ELEMENT RULE Co., Ltd. As a result, the sales of these two brands, which were included in "others" for Adastria in prior years, are included in the sales of ELEMENT RULE beginning with the first quarter of the fiscal year ending in February 2019.

**(2) Sales for Merchandise Categories**

Category	First three months of FY2/19		YoY change (%)
	Sales (million yen)	Composition (%)	
Men's apparel (bottoms, tops)	7,203	14.0	(6.2)
Lady's apparel (bottoms, tops)	34,251	66.7	(4.7)
Others	9,937	19.3	(5.0)
Total	51,392	100.0	(4.9)

- 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 May 31, 2018
	As of Feb. 28, 2018	First three months of FY2/19				Increase /decrease	
		Absorption-type split (Note 3)	Opened	Changed	Closed		
GLOBAL WORK	210	-	5	-	-	5	215
niko and ...	132	-	3	-	-	3	135
STUDIO CLIP	195	-	1	-	(2)	(1)	194
LOWRYS FARM	149	-	2	-	(1)	1	150
LEPSIM	138	-	2	-	(1)	1	139
JEANASIS	76	-	1	-	-	1	77
BAYFLOW	39	-	6	-	-	6	45
RAGEBLUE	57	-	3	-	-	3	60
Others	279	(68)	7	-	(1)	(62)	217
Total (Adastria)	1,275	(68)	30	-	(5)	(43)	1,232
ALICIA CO., LTD.	100	-	1	2	(9)	(6)	94
ELEMENT RULE Co., Ltd.	-	68	8	-	-	76	76
Total (Japan)	1,375	-	39	2	(14)	27	1,402
Hong Kong	24	-	-	-	(1)	(1)	23
China	49	-	-	-	(7)	(7)	42
Taiwan	31	-	-	-	(2)	(2)	29
South Korea	11	-	-	-	-	-	11
USA	11	-	-	-	-	-	11
Total (Overseas)	126	-	-	-	(10)	(10)	116
Total (Group)	1,501	-	39	2	(24)	17	1,518

- 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. The figures in "Absorption-type split" show the change in the number of stores resulting from the absorption-type split conducted on March 1, 2018, where the *BARNYARDSTORM* and *BABYLONE* business units of Adastria were divested and then transferred to consolidated subsidiary ELEMENT RULE Co., Ltd.

*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.*