

Brief summary of Fiscal 2019/02 1st Quarter Financial Results

June 29, 2018

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I. FY2019/02 1st Quarter Financial Results



Consolidated Income Statement

Millions of yen

	FY2018/02 1Q		FY2019/02 1Q		
	Results		Results		
		Ratio		Ratio	YoY
Net sales	54,066	100.0%	51,392	100.0%	95.1%
Adastria(Non-consolidated)	49,261	91.1%	44,760	87.1%	90.9%
Domestic subsidiaries *1	2,517	4.7%	3,670	7.1%	145.8%
Overseas subsidiaries *2	2,627	4.9%	3,808	7.4%	144.9%
Gross profit	32,089	59.4%	29,521	57.4%	92.0%
SG&A expenses	28,255	52.3%	28,243	55.0%	100.0%
Advertising & promotion	2,067	3.8%	2,376	4.6%	115.0%
Personnel	8,890	16.4%	9,526	18.5%	107.2%
Rent & depreciation	11,193	20.7%	10,520	20.5%	94.0%
Amortization of goodwill	591	1.1%	570	1.1%	96.4%
Others	5,512	10.2%	5,249	10.2%	95.2%
Operating income	3,833	7.1%	1,278	2.5%	33.4%
Adastria(non-consolidated, before amortization of goodwill)	4,783	-	2,306	-	48.2%
Domestic subsidiaries *1 (before amortization of goodwill)	103	-	▲ 127	-	-
Overseas (before amortization of goodwill) *2	▲ 440	-	▲ 635	-	-
Adastria Logistics	169	-	172	-	101.9%
Ordinary income	3,892	7.2%	1,358	2.6%	34.9%
Net income	5,220	9.7%	239	0.5%	4.6%
EBITDA	6,004	11.1%	3,387	6.6%	56.4%
Depreciation and amortization	1,579	2.9%	1,538	3.0%	97.4%
Amortization of goodwill	591	1.1%	570	1.1%	96.4%

*1 : Domestic subsidiaries is the sum of three domestic subsidiaries: ALICIA Co.,Ltd., ELEMENT RULE Co., Ltd., Adastria eat Creations Co.,Ltd.

*2 : Oversea subsidiaries is the sum of overseas subsidiaries: Hong Kong, Taiwan, China, Korea, USA.

* : Purchase price allocation (PPA) was conducted at the end of last fiscal year and the results is reflected on FY2018/02 numbers.

Consolidated Income Statement

■ Net sales: 51.3 billion yen (-4.9% YoY)

- Non-consolidated: Net sales of existing stores declined 7.2% year on year niko and ..., continued to perform well while overall other brands were sluggish
- Domestic subsidiaries: Two brands (BARNYARDSTORM & BABYLONE) from Adastria Co., Ltd, were transferred into subsidiary, ELEMENT RULE Co.,Ltd from 1st quarter this fiscal year

■ Gross profit margin: 57.4% (-2.0p YoY)

- The price discount rate increased due to inventory control measures
- Increased the bonus point program for E-commerce site

■ SG&A expense ratio: 55.0%(+2.7p YoY)

- Advertising & promotion: 4.6% (+0.8p YoY) Strengthened online business promotions
- Personnel : 18.5% (+2.1p YoY) higher personnel expense ratio at physical stores and the consolidation of subsidiary
- Rent & depreciation: 20.5% (-0.2p YoY) Decreased due to one time head office relocation expense in last year
- Others: 10.2%(+0.0p YoY) Increased in shipping expenses for small packages, decreased in outsourcing fee

■ Operating income: 1.2 billion yen(-66.6% YoY)

- Operating margin: 2.5% (-4.6p YoY) ; EBITDA margin: 6.6% (-4.5p YoY)

■ Net income: 0.2 billion(-95.4 % YoY)

- 4.3 billion yen gain on sales of investment securities was recorded at 1st quarter last fiscal year

Non-consolidated Income Statement

Millions of yen

	FY2018/02 1Q	FY2019/02 1Q	
	Results	Results	
Net sales	49,261	44,760	90.9%
(Existing stores YoY)	102.6%	92.8%	-
GLOBAL WORK *1	10,335	9,325	90.2%
niko and...	6,584	7,393	112.3%
studio CLIP	5,444	5,372	98.7%
LOWRYS FARM *1	6,583	5,324	80.9%
LEPSIM	3,759	3,461	92.1%
Gross profit	29,269	25,609	87.5%
Gross margin	59.4%	57.2%	▲ 2.2p
SG&A expenses (before amortization of goodwill)	24,486	23,302	95.2%
SG&A ratio	49.7%	52.1%	+2.4p
Operating income (before amortization of goodwill)	4,783	2,306	48.2%
Operating margin	9.7%	5.2%	▲ 4.5p

- Two brands from parent company, Adastria Co., Ltd., were transferred into subsidiary, ELEMENT RULE Co.,Ltd from 1st quarter this fiscal year
- Excluding the impact of the transfer mentioned above, the net sales is 95.1% year on year

Opened	59	30
Closed	5	5
Other change *2	-	▲68
Renovated	25	18
As of the end of FY2019/02 1Q	1,297	1,232

*1 : Due to the operation of 12 outlet stores were transferred into brands from FY2018/3Q, net sales numbers has been adjusted for both FY2018/02 and FY 2019/02.

*2 : 68 stores were transferred from Adastria Co., Ltd. into ELEMENT RULE Co.,Ltd in March 2019.

* : Two brands from parent company, Adastria Co., Ltd., were transferred into subsidiary, ELEMENT RULE Co.,Ltd from FY2019/2 1Q.

Overseas Business

Millions of yen

	FY2018/02 1Q	FY2019/02 1Q		
	Results		Results	
			YoY (JPY)	YoY (Local currency)
Net sales	2,627	3,808	144.9%	148.5%
Hong Kong	1,578	1,492	94.6%	100.1%
China	437	428	98.1%	94.5%
Korea	191	282	147.6%	143.8%
Taiwan	420	624	148.3%	147.5%
USA	-	979	-	-
Operating income (before amortization of goodwill)	▲ 440	▲ 635	-	-
Hong Kong	▲ 283	▲ 240	-	-
China	▲ 95	▲ 216	-	-
Korea	▲ 68	▲ 80	-	-
Taiwan	7	22	315.0%	313.3%
USA (before amortization of goodwill)	-	▲ 120	-	-

- Hong Kong and China is undergoing business restructuring
- Sales of niko and ... in Korea and Taiwan continued to grow
- Maintaining quality suppliers and customers in the wholesale business for USA business

Consolidated Balance Sheet

Millions of yen

	End of 2017/5		End of 2018/2		End of 2018/5			
		Ratio		Ratio		Ratio	Compared with the end of 2017/5	Compared with the end of 2018/2
Current assets	48,519	50.8%	49,785	54.6%	48,195	53.4%	▲ 323	▲ 1,589
Cash and deposits	12,130	12.7%	19,446	21.3%	12,409	13.8%	+278	▲ 7,036
Inventories	19,326	20.3%	18,073	19.8%	19,908	22.1%	+582	+1,835
Fixed assets	46,902	49.2%	41,338	45.4%	42,022	46.6%	▲ 4,879	+684
Property, plant and equipment	12,656	13.3%	12,324	13.5%	13,406	14.9%	+749	+1,082
Goodwill	6,103	6.4%	1,959	2.2%	1,373	1.5%	▲ 4,729	▲ 585
Investments and other assets	25,065	26.3%	22,799	25.0%	22,705	25.2%	▲ 2,360	▲ 94
Total assets	95,422	100.0%	91,123	100.0%	90,218	100.0%	▲ 5,203	▲ 904
Liabilities	38,477	40.3%	40,092	44.0%	39,778	44.1%	+1,301	▲ 313
Interest-bearing debt	2,544	2.7%	2,657	2.9%	2,775	3.1%	+231	+117
Net assets	56,944	59.7%	51,030	56.0%	50,439	55.9%	▲ 6,504	▲ 590
Treasury stocks	▲ 4,647	▲ 4.9%	▲ 4,652	▲ 5.1%	▲ 4,575	▲ 5.1%	+72	+77

* : Purchase price allocation (PPA) was conducted at the end of last fiscal year and the results is reflected on End of 2017/5 numbers.

Number of Stores

	FY2018/02	FY2019/02 1Q			
	Fiscal year end	Opened	Changed	Closed	end of 1Q
GLOBAL WORK	210	5	0	0	215
niko and ...	132	3	0	0	135
LOWRYS FARM	195	1	0	▲ 2	194
studio CLIP	149	2	0	▲ 1	150
LEPSIM	138	2	0	▲ 1	139
JEANASIS	76	1	0	0	77
RAGEBLUE	57	3	0	0	60
BAYFLOW	39	6	0	0	45
Others	279	7	▲ 68	▲ 1	217
Adastria non-consolidated total*1	1,275	30	▲ 68	▲ 5	1,232
(Web store included)	(45)	(3)	(▲ 5)	(0)	(43)
Domestic subsidiaries total *1 *2	100	9	70	▲ 9	170
(Web store included)	(7)	(5)	(5)	(0)	(17)
Japan total	1,375	39	2	▲ 14	1,402
(Web store included)	(52)	(8)	(0)	(0)	(60)
Hong Kong	24	0	0	▲ 1	23
China	49	0	0	▲ 7	42
Taiwan	31	0	0	▲ 2	29
Korea	11	0	0	0	11
US	11	0	0	0	11
Overseas total	126	0	0	▲ 10	116
(Web store included)	(8)	(0)	(0)	(0)	(8)
Consolidated total	1,501	39	2	▲ 24	1,518

*1 : 68 stores were transferred from Adastria Co., Ltd. into ELEMENT RULE Co.,Ltd in March 2019.

*2 : Sum of three domestic subsidiaries: ALICIA Co.,Ltd., ELEMENT RULE Co., Ltd.

FY2019/02 Forecast (Consolidated)

Same as announced
at April 4, 2018

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		

II. News & Topics



Initiatives for Improving Japan Operations

■ Merchandise planning initiatives

Relocate the pressroom (showroom) back into the headquarter

- Increase the opportunities and convenience for sample reviewing and merchandise planning

■ Store initiatives

Brush up of branch system by consolidating the 16 local branches into 7

- Improve the speed and quality of the communication between stores and brand headquarters

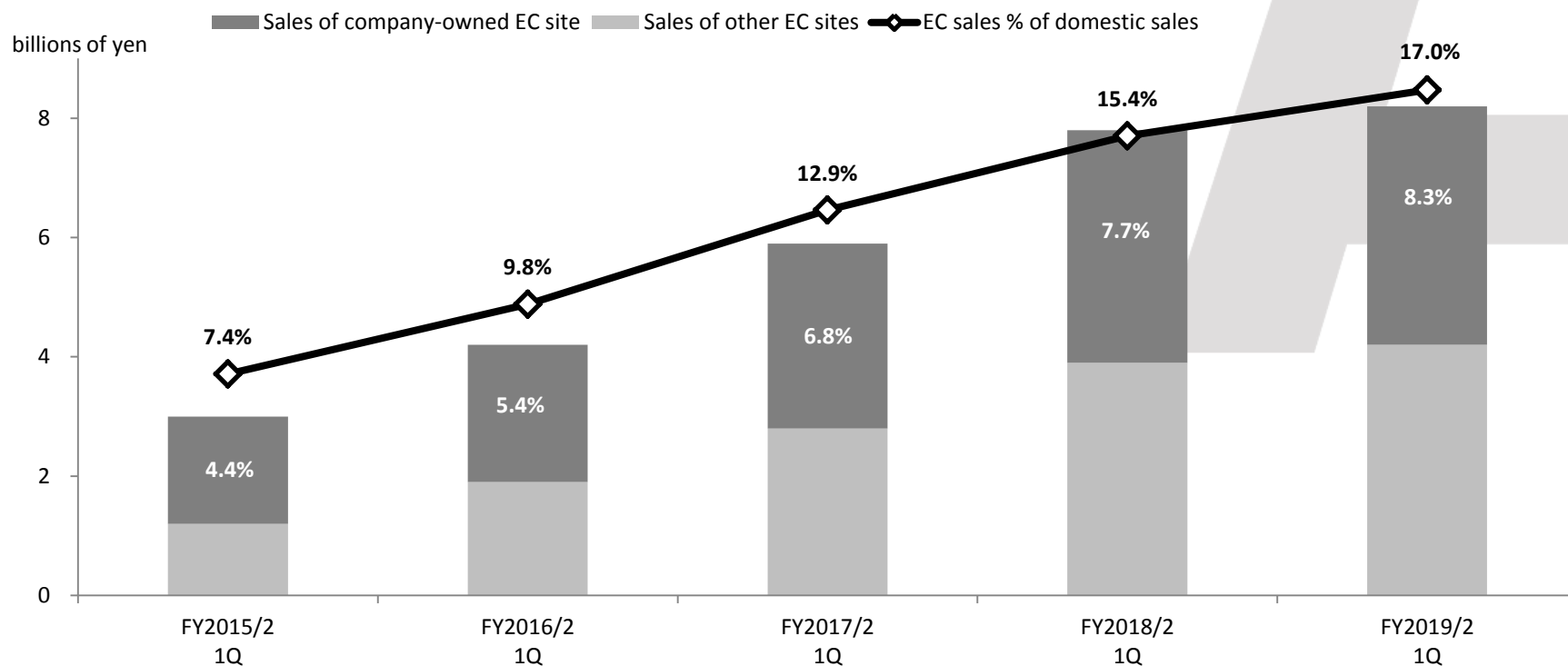
■ Reinforcement of IT infrastructure

System cutover from March 2018

- Expand the scope and quality of timely information gathering to support merchandise planning and store operations

Online Business

- Domestic net sales from online: 8.2 billion yen (+2.9% YoY)
- Domestic online business ratio: 17.0% (company-owned EC site: approx. 8.3%)
- Member of company-owned EC site [.st]: approx. 7.4 million (+0.4 million vs. FY2018/02)



* : From FY2018/02, sales of ALICIA Co.,Ltd. was added.

* : From FY2019/02, sales of ELEMENT RULE Co.,Ltd was added.

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