

FY2019/02 1H Financial Results & Business Strategy

September 28, 2018

A D A S T R I A
—
Play fashion!

A D A S T R I A
—
Play fashion!

Table of Contents

I . FY2019/02 1st Half Financial Results

· Summary of FY2019/02 1H	3
· Consolidated Income Statement	4
· Parent Company Income Statement	6
· Overseas Business	7
· Consolidated Balance Sheet	8
· Number of Stores	9
· FY2019/02 Forecast (Consolidated)	10
· Return to Shareholders	11

II . Business Strategy

· Operations in Japan	13
· Overseas Business	17
· Online Business	18
· New Business	20
· Infrastructure for Business Operations	22
· Progress of Growth Strategies	23

I . FY2019/02 1st Half Financial Results

Summary of FY2019/02 1H

■ Sales and earnings decreased

- Overall sales of existing businesses in Japan were sluggish, although niko and ... and some other brands performed well.
- Although there were measures to limit discount sales, sales were impacted by the inability to adequately supply merchandise that met customers' needs.
- Discount sales of merchandise earlier than planned in order to reduce inventories and other actions reduced the gross profit margin.

■ Steady progress with initiatives based on growth strategies

- Established a brand positioning strategy and a plan for strengthening existing brands
- Many initiatives for launching new services and entering new business domains
- Continue strengthening and developing business infrastructure

Consolidated Income Statement

Millions of yen

	FY2018/02 1H		FY2019/02 1H		
	Results		Results		
		Ratio		Ratio	YoY
Net sales	107,793	100.0%	105,005	100.0%	97.4%
Adastria(Non-consolidated)	97,324	90.3%	91,125	86.8%	93.6%
Domestic subsidiaries *1	5,057	4.7%	8,167	7.8%	161.5%
Overseas subsidiaries *2	6,230	5.8%	7,247	6.9%	116.3%
Gross profit	60,099	55.8%	56,649	53.9%	94.3%
SG&A expenses	56,309	52.2%	56,119	53.4%	99.7%
Advertising & promotion	3,460	3.2%	3,981	3.8%	115.1%
Personnel	18,645	17.3%	19,581	18.6%	105.0%
Rent & depreciation	22,325	20.7%	21,456	20.4%	96.1%
Amortization of goodwill	1,277	1.2%	1,172	1.1%	91.7%
Others	10,600	9.8%	9,927	9.5%	93.7%
Operating income	3,790	3.5%	529	0.5%	14.0%
Adastria(non-consolidated, before amortization of goodwill)	5,446	-	2,309	-	42.4%
Domestic subsidiaries *1 (before amortization of goodwill)	106	-	▲ 365	-	-
Overseas subsidiaries (before amortization of goodwill) *2	▲ 1,132	-	▲ 1,037	-	-
Adastria Logistics	400	-	387	-	96.7%
Ordinary income	3,900	3.6%	600	0.6%	15.4%
Net income	4,794	4.4%	▲ 554	-	-

EBITDA	8,337	7.7%	4,895	4.7%	58.7%
Depreciation and amortization	3,270	3.0%	3,194	3.0%	97.7%
Amortization of goodwill	1,277	1.2%	1,172	1.1%	91.7%

Capital expenditure	7,009		8,575		
---------------------	-------	--	-------	--	--

*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.

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

Consolidated Income Statement

■ Net sales: 105,005 million yen (-2.6% YoY)

- Non-consolidated: Net sales of existing stores declined 4.2% year on year
First quarter sales of all brands except niko and ... were weak, but sales of the LEPSIM, JEANASIS and some other brands started recovering in the second quarter
- Domestic subsidiaries: BARNYARDSTORM and BABYLONE brands of ELEMENT RULE performed well
- Overseas: Rebuilding operations in Hong Kong/China, but sales were effectively unchanged in Asia and the U.S. from one year earlier

■ Gross profit margin: 53.9% (-1.9p YoY)

- Fiscal year began with measures to limit discount sales, but the price discount rate increased in order to reduce inventories

■ SG&A expense ratio: 53.4% (+1.2p YoY)

- Advertising & promotion: 3.8% (+0.6p YoY) Expenses for e-commerce promotion and TV commercials for niko and ... increased
- Personnel: 18.6% (+1.3p YoY) Personnel increased for growing brands and new business; also expenses increased due to the consolidation of U.S. subsidiary
- Rent & depreciation: 20.4% (-0.3p YoY) Head office relocation raised expenses one year earlier; also expenses decreased along with sales
- Others: 9.5% (-0.3p YoY) Shipping expenses for small packages increased but outsourcing fee decreased

■ Operating income: 529 million yen (-86.0% YoY)

- Operating margin: 0.5% (-3.0p YoY), EBITDA margin: 4.7% (-3.0p YoY)

■ Net loss: 554 million yen

- 7 million yen tax was recorded based on the parent company's earnings before taxes and goodwill amortization

Parent Company (non-consolidated) Income Statement

Millions of yen

	FY2018/02 1H		FY2019/02 1H	
	Results	Results		
				YoY
Net sales	97,324	91,125	93.6%	
(Existing stores YoY)	99.9%	95.8%		
GLOBAL WORK *1	19,666	18,726	95.2%	
niko and...	13,609	15,124	111.1%	
studio CLIP	12,404	11,883	95.8%	
LOWRYS FARM *1	12,041	10,300	85.5%	
LEPSIM	7,444	7,174	96.4%	
Gross profit	53,760	48,408	90.0%	
Gross margin	55.2%	53.1%	▲ 2.1p	
SG&A expenses (before amortization of goodwill)	48,314	46,099	95.4%	
SG&A ratio	49.6%	50.6%	+0.9p	
Operating income (before amortization of goodwill)	5,446	2,309	42.4%	
Operating margin	5.6%	2.5%	▲ 3.1p	

Opened	71	36
Closed	16	33
Other change *2	-	14
Renovated	30	19
As of the end of 1H	1,298	1,292

*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. 82 stores of ALICIA's three brands are added from August 2018.

- Net sales is approximately 97.4% year on year excluding the impact of two brands transfer from parent company to subsidiary from 1st quarter of this fiscal year.

Overseas Business

Millions of yen

	FY2018/02 1H	FY2019/02 1H		
		Results	Results	
			YoY (JPY)	YoY (Local currency)
Net sales	6,230	7,247	116.3%	118.3%
Hong Kong	2,982	2,616	87.7%	91.5%
China	895	793	88.6%	84.8%
Taiwan	806	1,149	142.5%	142.7%
Korea	431	605	140.1%	136.4%
USA *1	1,114	2,083	187.0%	192.5%
Operating income (before amortization of goodwill)	▲ 1,132	▲ 1,037	-	-
Hong Kong	▲ 342	▲ 413	-	-
China	▲ 206	▲ 369	-	-
Taiwan	69	87	125.6%	125.8%
Korea	▲ 93	▲ 94	-	-
USA *1 (before amortization of goodwill)	▲ 558	▲ 246	-	-

*1 : The sales and profits started to be recorded from FY2018/02

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

- Hong Kong and China is undergoing business restructuring
- Sales of niko and ... in Korea and Taiwan continued to grow
- Merchandizing and operation improvement reduced the profit loss year on year for USA

Consolidated Balance Sheet

Millions of yen

	End of 2017/8		End of 2018/2		End of 2018/8			
		Ratio		Ratio		Ratio	Compared with the end of 2017/8	Compared with the end of 2018/2
Current assets	50,247	52.2%	49,785	54.6%	47,053	52.9%	▲ 3,194	▲ 2,731
Cash and deposits	18,774	19.5%	19,446	21.3%	15,702	17.7%	▲ 3,071	▲ 3,743
Inventories	18,437	19.2%	18,073	19.8%	17,814	20.0%	▲ 622	▲ 259
Fixed assets	46,026	47.8%	41,338	45.4%	41,831	47.1%	▲ 4,194	+493
Property, plant and equipment	12,097	12.6%	12,324	13.5%	13,708	15.4%	+1,610	+1,383
Goodwill	5,412	5.6%	1,959	2.2%	781	0.9%	▲ 4,631	▲ 1,178
Investments and other assets	25,011	26.0%	22,799	25.0%	22,412	25.2%	▲ 2,598	▲ 386
Total assets	96,273	100.0%	91,123	100.0%	88,884	100.0%	▲ 7,388	▲ 2,238
Liabilities	39,811	41.4%	40,092	44.0%	39,234	44.1%	▲ 577	▲ 858
Interest-bearing debt	2,538	2.6%	2,657	2.9%	2,536	2.9%	▲ 2	▲ 121
Net assets	56,462	58.6%	51,030	56.0%	49,650	55.9%	▲ 6,811	▲ 1,379
Treasury stocks	▲ 4,649	▲ 4.8%	▲ 4,652	▲ 5.1%	▲ 4,574	▲ 5.1%	+75	+78

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

Number of Stores

	FY2018/02	FY2019/02 1H				
	Fiscal year end	Transferred	Opened	Changed	Closed	end of 1H
GLOBAL WORK	210	-	6	0	▲ 1	215
niko and ...	132	-	4	0	▲ 1	135
LOWRYS FARM	195	-	1	0	▲ 4	192
studio CLIP	149	-	2	0	▲ 6	145
LEPSIM	138	-	2	0	▲ 3	137
JEANASIS	76	-	1	0	▲ 3	74
BAYFLOW	39	-	6	0	0	45
RAGEBLUE	57	-	3	0	▲ 2	58
Others	279	14	11	0	▲ 13	291
Adastria non-consolidated total	1,275	14	36	-	▲ 33	1,292
(Web store included)	(45)	(1)	(4)	-	(0)	(50)
Domestic subsidiaries total	100	▲ 14	9	2	▲ 19	78
(Web store included)	(7)	(▲1)	(5)	(0)	(0)	(11)
Japan total	1,375	-	45	2	▲ 52	1,370
(Web store included)	(52)	-	(9)	(0)	(0)	(61)
Hong Kong	24	-	1	0	▲ 1	24
China	49	-	0	0	▲ 14	35
Taiwan	31	-	6	0	▲ 2	35
Korea	11	-	0	0	0	11
US	11	-	0	0	▲ 1	10
Oversea total	126	-	7	0	▲ 18	115
(Web store included)	(8)	-	(5)	(0)	(0)	(13)
Consolidated total	1,501	-	52	2	▲ 70	1,485

FY2019/02 Plan				
Transferred	Opened	Changed	Closed	end of 1H
-	6	0	▲ 3	213
-	7	0	▲ 1	138
-	3	0	▲ 5	193
-	2	0	▲ 10	141
-	2	0	▲ 6	134
-	1	0	▲ 4	73
-	9	0	0	48
-	3	0	▲ 2	58
14	21	-	▲ 29	285
14	54	-	▲ 60	1,283
(1)	(4)	-	(0)	(50)
▲ 14	15	2	▲ 19	84
(▲1)	(8)	(0)	(0)	(14)
-	69	2	▲ 79	1,367
-	(12)	(0)	(0)	(64)
-	2	0	▲ 4	22
-	0	0	▲ 39	10
-	8	0	▲ 4	35
-	1	0	0	12
-	0	0	▲ 1	10
-	11	0	▲ 48	89
-	(5)	(0)	(0)	(13)
-	80	2	▲ 127	1,456

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		

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 (MMyen)	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	-

- Dividend policy: Place priority on the basic policy of maintaining a consolidated payout ratio of 30% before goodwill amortization while considering stability.
- For FY2019/02, the interim dividend is 20 yen per share, yearly dividend forecast of 50 yen per share remains unchanged.

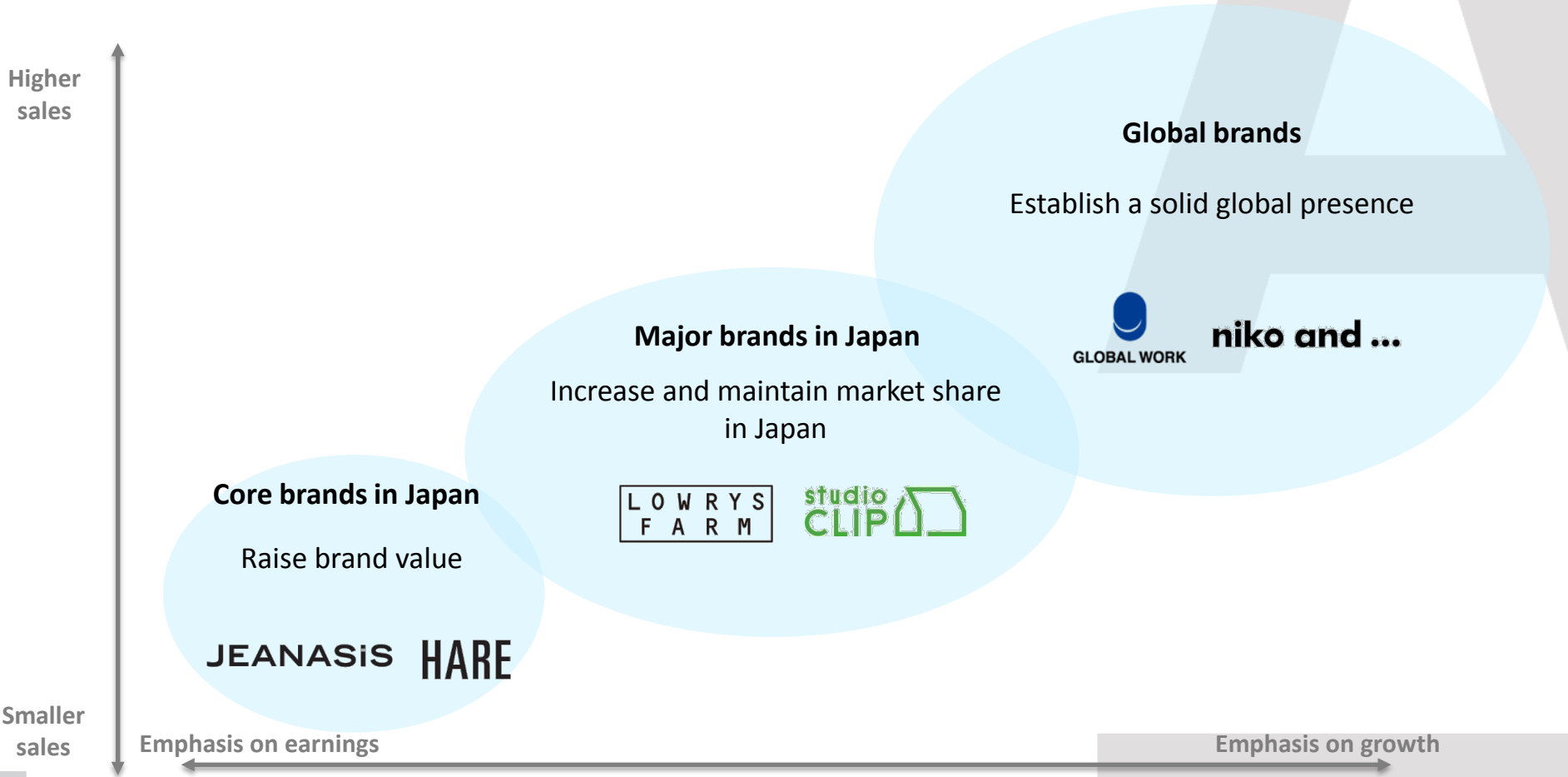
II. Business Strategy



Operations in Japan

Brand positioning strategy

Created a strategy to clearly position each brand and divide brands into three groups



Operations in Japan

Plans for strengthening major brands

niko and ...

- More advertising and promotional activities: Use collaboration with companies in other business sectors to send customers to each other and use TV commercials to raise brand awareness
- Expand to more categories: Develop new content for the brand centered on “living spaces for food, clothing and housing”



TV commercials in 2018 are featuring Masaki Suda and Nana Komatsu, who have been named ambassadors for the niko and ... brand.

Operations in Japan

Plans for strengthening major brands

GLOBAL WORK

- More new ideas for apparel
New ideas for apparel for the office, brief outings, sports and other activities
- Larger lineup of miscellaneous items starting in the spring of 2019
More lifestyle products with focus on family excursion = items designed on the concept of “going out” and “experience”



New styles for apparel for business and commuting

LOWRYS FARM

- Add more targeted customer segments
Expand age and fashion taste targets as the age of customers who buy LOWRYS FARM products changes
Planning to change product planning starting in the fall of 2018
- Plan to implement full-scale rebranding in the spring of 2019



Named Masami Nagasawa and Kaho as representatives of this brand for 2018 fall and winter fashions

Operations in Japan

Upgrade product planning and revision capabilities

Product planning

- Create a product planning schedule centered on the R&D Division
- Increase opportunities to share trend/market information
- Improve the environment for studying potential new products by relocating the pressroom (showroom) to the head office

Product revisions

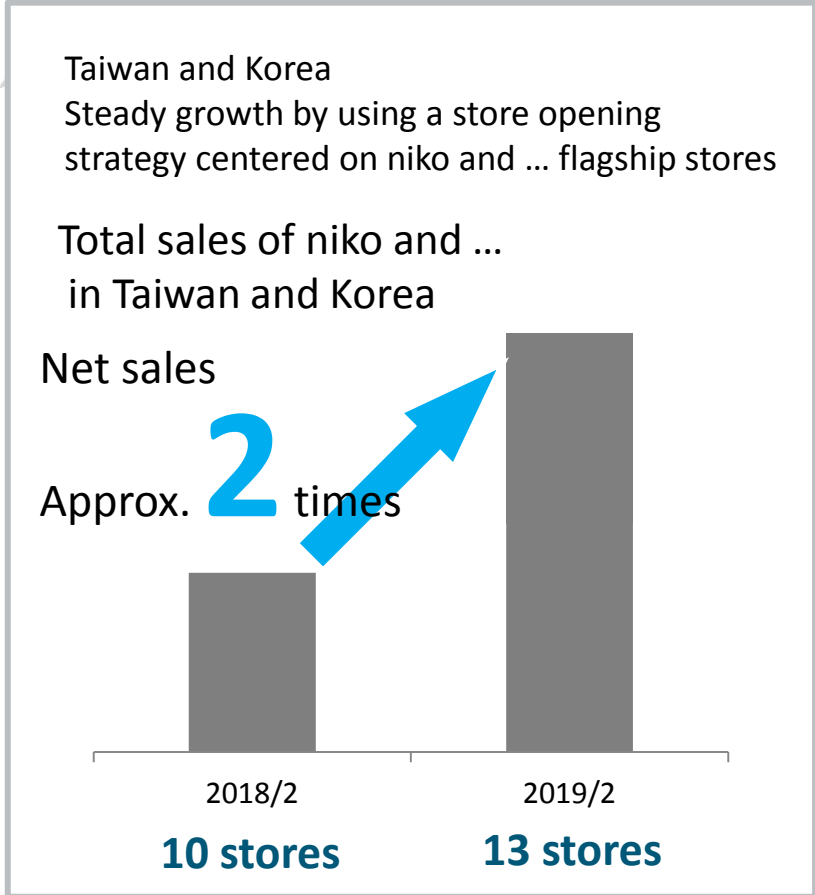
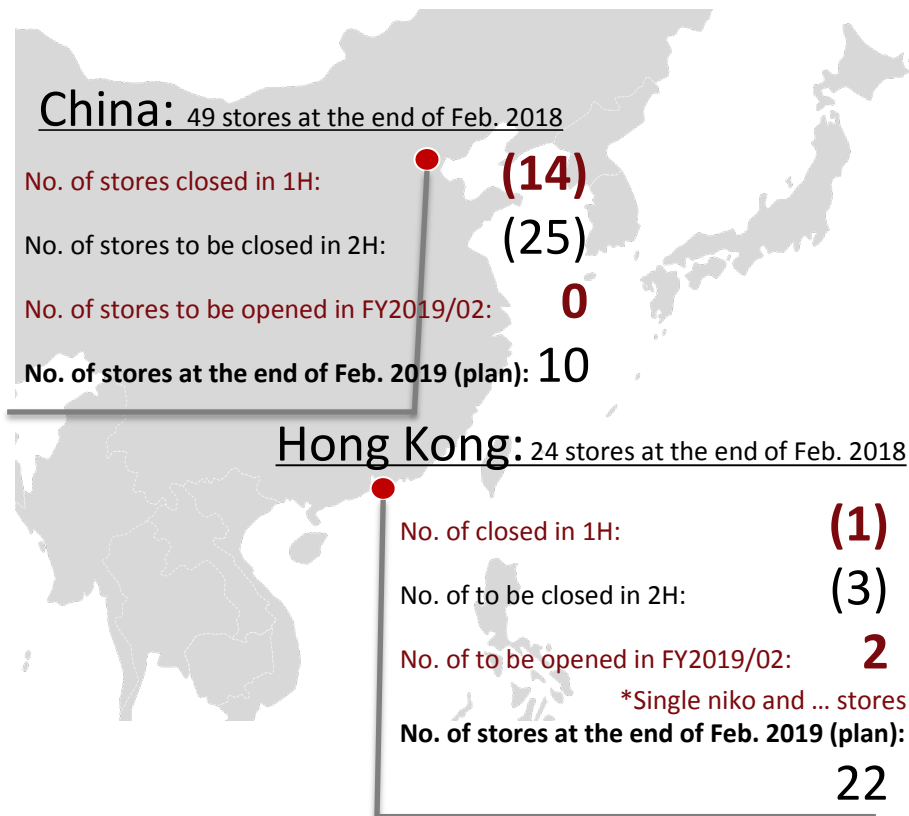
- Review the balance of orders between periods when production is low and other periods and quick response production
- Use data analysis to estimate reasonable prices and timing to change selling price



Overseas Business

Rebuilding of Hong Kong/China operations has progressed as planned

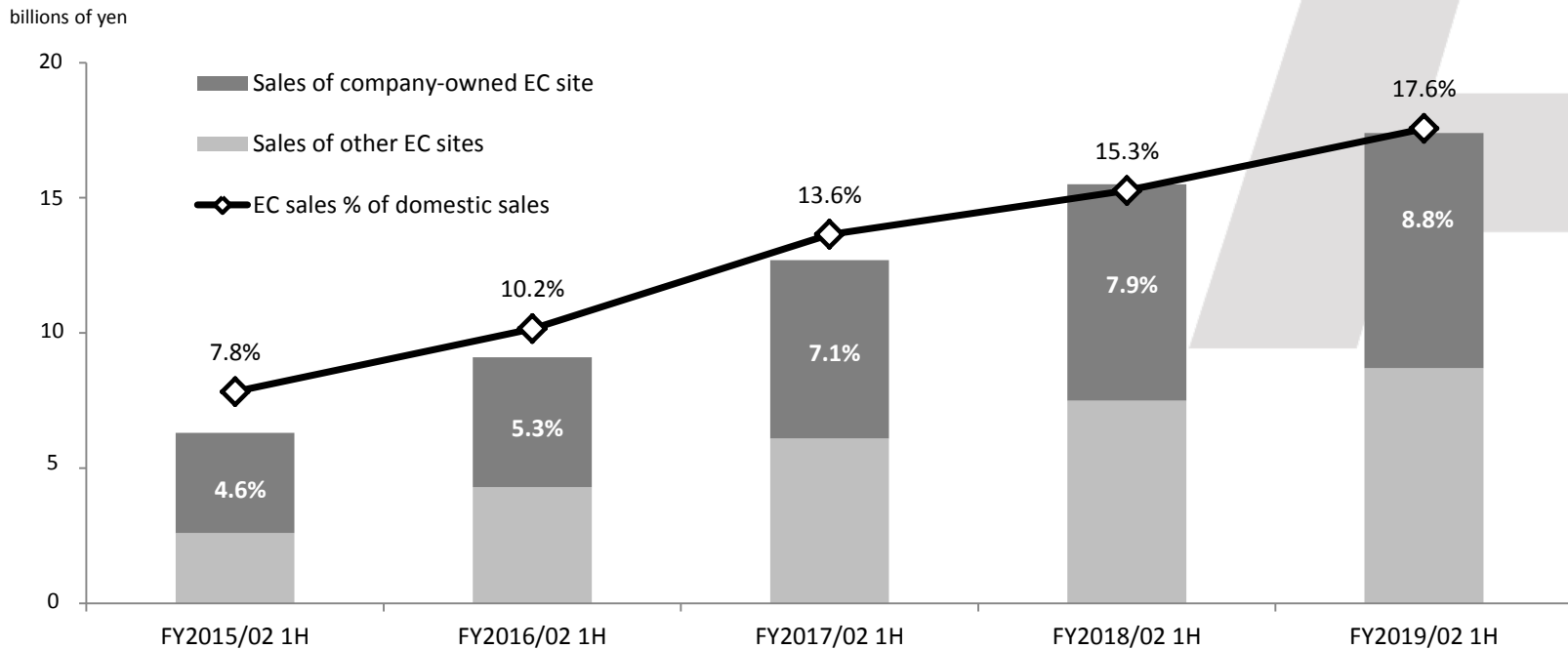
- Plan to shift in stages to operations centered on the niko and ... brand



Online Business

Steady growth of online business

- Domestic net sales from online :17.4 billion yen (+11.5% YoY)
- Domestic online business ratio :17.6% (company-owned EC site: approx. 8.8%)
- Member of company-owned EC site [.st]: : approx. 7.8 million (+0.8 million vs. FY2018/02)



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

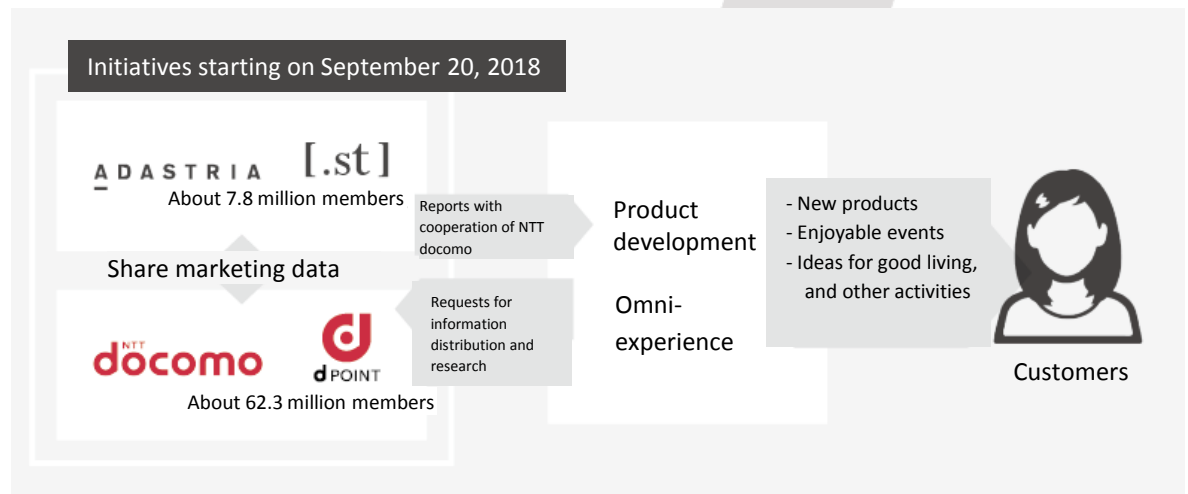
* : From FY2019/02, sales of ELEMENT RULE Co.,Ltd was added.

Online Business

Raise the value of membership by expanding the loyalty point program

Tie-up with NTT docomo starting on September 20, 2018

- Customers can use or receive NTT docomo d point at Adastria stores and [.st]
- Cooperation involving marketing by using the combined membership base of about 70 million people of Adastria and NTT docomo



New Business

Launched the Cosmetics Business

CALEIDO^{ET}BICE

- Targets opportunities created by more spending on fashion items other than apparel
- Stores located at major urban railway station buildings; extensive use of social networking services to raise brand awareness
- Offer customers experiences by providing cosmetic samples and in-store demonstrations



CALEIDO ET BICE, LUCUA 1100 store in Osaka (opened on August 29, 2018)

New Business

Continue developing new business domains

Adastia Innovation Lab.

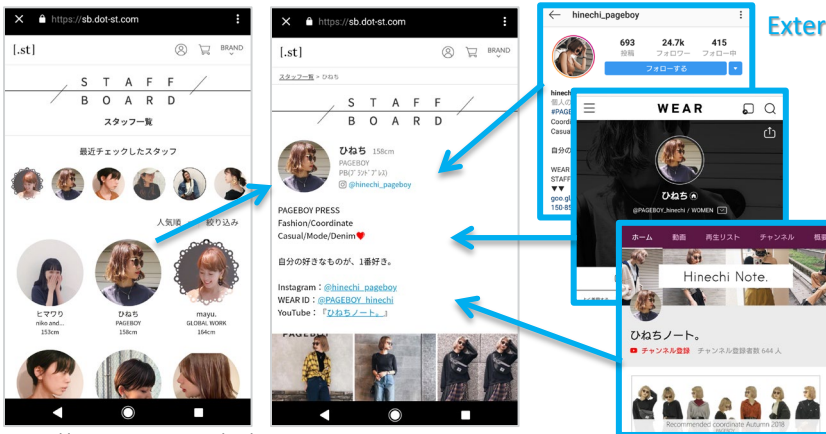
- Established as an organization for creating business value and developing new businesses
- Many joint activities, including corporate venture capital, with start-up companies with advanced technologies

Example 1

New Adastia e-commerce service

STAFF BOARD

- Use Adastia personnel with new and useful information to create more points of contact with customers
- Offer incentives to employees based on contributions to sales



External SNS

<http://www.dot-st.com/cp/staff-board>

Some Adastia staff members have tens of thousands of followers on their external SNS sites.

Example 2

Sharing platform

KIDSRUBE

- Children's used apparel rental business (monthly fee)
- Sharing of children's apparel among users



No worries even if clothing is dirty or cannot be used any longer
No need to return clothing that is dirty or torn.
Please return only clothing that can be given to another child.



<https://kidsrobe.jp/>

Supplying unused clothing gives users additional number of times to rent children's apparel.

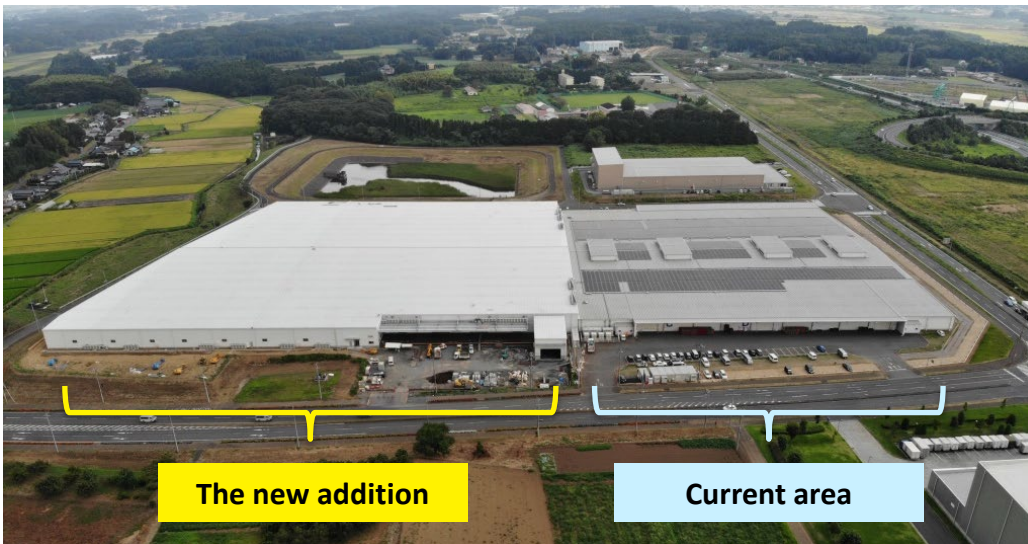
Infrastructure for Business Operations

Stronger and more efficient distribution capabilities

Ibaraki West Distribution Center expanded by almost 30,000 m² with operations to start on October 1

1. More efficient merchandise logistics extending from overseas to distribution centers in Japan
2. Material handling equipment raises e-commerce logistics productivity
3. Positions Adastria for growth in the scale and diversity of operations

Up to twice the volume of B-to-B shipments (to stores in Japan); up to four times the volume of B-to-C shipments (to e-commerce customers)



Adastria Ibaraki West Distribution Center

Location: Central Industrial Park,
Ibaraki-machi,
Higashiibaraki-gun, Ibaraki

Total area: Approx. 50,000 m²

Progress of Growth Strategies

FY2019/02–FY2021/02

Growth Strategies

Strategy 1: Build an infrastructure that can consistently increase earnings	Maintain proper inventory levels and control price discounts	Reexamined the brand positioning strategy and established plans for strengthening major brands
	Use Adastria's exclusive SPA (specialty store retailer of private label apparel) framework to improve product planning skills	Quickly took actions for upgrading product planning and revision capabilities
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	Raised the value of membership by expanding the loyalty point program
	Rebuild overseas operations	Continued making progress as planned with rebuilding Hong Kong/China operations
	Start operations in new business domains	Launched the cosmetics business Continued developing new business domains by opening Adastria Innovation Lab
Strategy 3: Build a foundation that can support innovation and growth	Make management of the entire ADASTRIA Group more powerful	Continued to operate and revise new organizations Made distribution capabilities stronger and more efficient

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

A D A S T R I A
— *Play fashion!*