

Summary of Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending February 28, 2019
(Nine Months Ended November 30, 2018)

[Japanese GAAP]

December 28, 2018

Company name: Adastria Co., Ltd.

Listing: TSE 1st section

Stock code: 2685

URL: <http://www.adastria.co.jp>

Representative: Michio Fukuda, Chairman of the Board

Contact: Masayuki Kindo, Member of the Board of Directors

Tel: +81-3-5466-2010

Scheduled date of filing of Quarterly Report: January 11, 2019

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, 2018 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, 2019
(March 1, 2018 – November 30, 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	%
Nine months ended Nov. 30, 2018	162,345	(0.6)	5,700	(15.4)	5,832	(17.7)	3,081	(52.2)
Nine months ended Nov. 30, 2017	163,269	9.6	6,739	(50.6)	7,087	(48.6)	6,444	(42.3)

Note: Comprehensive income Nine months ended Nov. 30, 2018: 2,841 million yen (down 18.3%)

Nine months ended Nov. 30, 2017: 3,480 million yen (down 59.5%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Nov. 30, 2018	65.48	-
Nine months ended Nov. 30, 2017	136.99	-

Reference: EBITDA

Nine months ended Nov. 30, 2018: 11,787 million yen (down 13.2%)

Nine months ended Nov. 30, 2017: 13,587 million yen

EPS before goodwill amortization Nine months ended Nov. 30, 2018: 91.61 yen (down 48.7%)

Nine months ended Nov. 30, 2017: 178.68 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 nine months ended November 30, 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 Nov. 30, 2018	98,959	52,284	52.8
As of Feb. 28, 2018	91,123	51,030	56.0

Reference: Shareholders' equity As of Nov. 30, 2018: 52,284 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	-	20.00	-	-	-
Fiscal year ending Feb. 28, 2019 (forecast)	-	-	-	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 Nov. 30, 2018:	48,800,000 shares	As of Feb. 28, 2018:	48,800,000 shares
----------------------	-------------------	----------------------	-------------------

2) Number of treasury shares at the end of the period

As of Nov. 30, 2018:	1,736,593 shares	As of Feb. 28, 2018:	1,759,875 shares
----------------------	------------------	----------------------	------------------

3) Average number of shares outstanding during the period

Nine months ended Nov. 30, 2018:	47,057,064 shares	Nine months ended Nov. 30, 2017:	47,041,654 shares
----------------------------------	-------------------	----------------------------------	-------------------

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.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Forecast and Other Forward-looking Statements	3
2. Quarterly Consolidated Financial Statements and Notes	4
(1) Quarterly Consolidated Balance Sheet	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
(3) Notes to Quarterly Consolidated Financial Statements	8
Going Concern Assumption	8
Significant Changes in Shareholders' Equity	8
3. Supplementary Information	8
(1) Sales for Brands and Regions	8
(2) Sales for Merchandise Categories	9
(3) Number of Stores	9

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

Consolidated results

(Million yen)

	First nine months of FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)	First nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)	YoY change (Amount)	YoY change (%)
Net sales	163,269	162,345	(924)	(0.6)
Operating profit	6,739	5,700	(1,038)	(15.4)
Ordinary profit	7,087	5,832	(1,255)	(17.7)
Net income attributable to owners of the parent	6,444	3,081	(3,362)	(52.2)
EBITDA	13,587	11,787	(1,799)	(13.2)
EPS before goodwill amortization (Yen)	178.68	91.61	(87.07)	(48.7)

Consolidated net sales in the first nine months (March 1 – November 30, 2018) decreased 0.6% year-on-year to 162,345 million yen, operating profit decreased 15.4% to 5,700 million yen, ordinary profit decreased 17.7% to 5,832 million yen, and net income attributable to owners of the parent decreased 52.2% to 3,081 million yen.

Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased 13.2% to 11,787 million yen and earnings per share (EPS) before goodwill amortization fell 48.7% to 91.61 yen. (*)

The small decrease of 0.6% in consolidated net sales was the result of an 11.6% increase in overseas sales and a 1.4% decrease in sales in Japan.

Overseas sales increased mainly because of the contribution to sales of Velvet, LLC, a U.S. company that was consolidated in the previous fiscal year. Sales in Hong Kong and China decreased due to ongoing business restructuring activities.

Sales in Japan were about the same as one year earlier. Sales were lackluster in April and May for all brands other than *niko and ...* because of slow sales of summer merchandise. Sales subsequently recovered because we held summer discount sales in June earlier than initially planned and there was an upturn in sales of the core *GLOBAL WORK* and *LOWRYS FARM* brands during the fall and winter apparel selling season. (Please refer to the section “3. Supplementary Information, (1) Sales for Brands and Regions” for further information.)

We opened 85 stores (including 9 overseas) and closed 97 stores (including 30 overseas), resulting in a total network of 1,490 stores (including 105 overseas) at the end of the first nine months of this fiscal year. In Hong Kong and China, unprofitable stores were closed in accordance with the business revitalization policy established in the previous fiscal year. (Please refer to the section “3. Supplementary Information, (3) Number of Stores” for further information.)

The gross profit margin decreased 1.2 percentage points from one year earlier to 55.3%. The main cause was sales of merchandise at discounted prices in response to slow sales of summer merchandise as was explained earlier.

The ratio of selling, general and administrative (SG&A) expenses to sales decreased 0.5 percentage point to 51.8%, resulting in a 0.6 percentage point decrease in the operating margin to 3.5%. SG&A expenses were 1,388 million yen less than one year earlier. One reason was one-time expenses in the previous fiscal year for relocating the head office. The completion at the end of the fiscal year’s first half of amortization of goodwill resulting from the consolidation of TRINITY ARTS (subsequently absorbed by Adastria) also reduced SG&A expenses.

There were extraordinary income of 201 million yen for gain on sales of investment securities and extraordinary losses of 376 million yen for the impairment of store assets.

(*) 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 7,836 million yen from as of February 28, 2018 to 98,959 million yen as of November 30, 2018. This was mainly due to increases of 8,163 million yen in notes and accounts receivable-trade, 5,843 million yen in inventories and 2,345 million yen in net property, plant and equipment, which was mostly attributable to the completion of the expansion of the Ibaraki Nishi Distribution Center. There were decreases of 8,020 million yen in cash and deposits and 1,228 million yen in goodwill.

Liabilities increased 6,583 million yen to 46,675 million yen. This was mainly due to increase of 2,019 million yen in notes and accounts payable-trade, 2,957 million yen in short-term loans payable and 3,207 million yen in accounts payable-other. There were decreases of 917 million yen in provision for bonuses and 888 million yen in the provision for loss on business liquidation.

Net assets increased 1,253 million yen to 52,284 million yen. This was mainly due to an increase in retained earnings of 1,415 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)	Third quarter of FY2/19 (As of Nov. 30, 2018)
Assets		
Current assets		
Cash and deposits	19,446	11,425
Notes and accounts receivable-trade	8,810	16,974
Inventories	18,073	23,917
Other	3,570	3,776
Allowance for doubtful accounts	(116)	(111)
Total current assets	49,785	55,983
Non-current assets		
Property, plant and equipment		
Store interior equipment, net	7,301	7,570
Other, net	5,022	7,368
Total property, plant and equipment	12,324	14,938
Intangible assets		
Goodwill	1,959	730
Other	4,255	5,033
Total intangible assets	6,214	5,763
Investments and other assets		
Investment securities	1,101	909
Lease and guarantee deposits	18,263	17,626
Other	3,711	4,052
Allowance for doubtful accounts	(278)	(313)
Total investments and other assets	22,799	22,274
Total non-current assets	41,338	42,976
Total assets	91,123	98,959
Liabilities		
Current liabilities		
Notes and accounts payable-trade	10,227	12,247
Electronically recorded obligations-operating	9,898	10,081
Short-term loans payable	2,657	5,615
Accounts payable-other	9,418	12,626
Income taxes payable	1,322	1,202
Provision for bonuses	2,413	1,496
Provision for point card certificates	698	1,022
Provision for loss on business liquidation	1,141	253
Other provision	140	264
Other	527	495
Total current liabilities	38,446	45,305
Non-current liabilities		
Provision	346	316
Other	1,299	1,054
Total non-current liabilities	1,645	1,370
Total liabilities	40,092	46,675

(Million yen)

	FY2/18 (As of Feb. 28, 2018)	Third quarter of FY2/19 (As of Nov. 30, 2018)
Net assets		
Shareholders' equity		
Capital stock	2,660	2,660
Capital surplus	7,227	7,227
Retained earnings	45,245	46,661
Treasury shares	(4,652)	(4,574)
Total shareholders' equity	50,480	51,973
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	235	72
Deferred gains or losses on hedges	(76)	(0)
Foreign currency translation adjustment	391	237
Total accumulated other comprehensive income	550	310
Total net assets	51,030	52,284
Total liabilities and net assets	91,123	98,959

(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 FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)	First nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)
Net sales	163,269	162,345
Cost of sales	71,093	72,596
Gross profit	92,176	89,749
Selling, general and administrative expenses	85,436	84,048
Operating profit	6,739	5,700
Non-operating income		
Dividend income	45	12
Foreign exchange gains	147	-
House rent income	81	65
Other	349	295
Total non-operating income	624	373
Non-operating expenses		
Interest expenses	14	34
Share of loss of entities accounted for using equity method	66	-
Foreign exchange losses	-	55
Loss on valuation of derivatives	85	71
Cost of lease revenue	70	59
Other	39	20
Total non-operating expenses	275	241
Ordinary profit	7,087	5,832
Extraordinary income		
Gain on sales of non-current assets	25	-
Gain on sales of investment securities	4,373	201
Total extraordinary income	4,398	201
Extraordinary losses		
Impairment loss	207	376
Loss on valuation of investment securities	38	-
Loss on sales of shares of subsidiaries and associates	129	-
Total extraordinary losses	375	376
Net income before income taxes	11,111	5,657
Income taxes-current	4,962	3,213
Income taxes-deferred	(295)	(637)
Total income taxes	4,666	2,576
Net income	6,444	3,081
Net income attributable to owners of the parent	6,444	3,081

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

(Million yen)

	First nine months of FY2/18 (Mar. 1, 2017 – Nov. 30, 2017)	First nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)
Net income	6,444	3,081
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,919)	(163)
Deferred gains or losses on hedges	(5)	76
Foreign currency translation adjustment	(39)	(153)
Total other comprehensive income	(2,964)	(239)
Comprehensive income	3,480	2,841
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	3,480	2,841
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 nine months of FY2/19		YoY change (%)
	Sales (million yen)	Composition (%)	
GLOBAL WORK	29,641	18.3	0.0
niko and ...	22,914	14.1	10.1
STUDIO CLIP	17,628	10.9	(2.2)
LOWRYS FARM	16,109	9.9	(10.1)
LEPSIM	11,070	6.8	(3.0)
JEANASIS	8,949	5.5	(2.1)
BAYFLOW	6,307	3.9	9.3
RAGEBLUE	5,549	3.4	(12.0)
Others (Notes 3 and 4)	21,711	13.4	(19.9)
Total (Adastria)	139,884	86.2	(4.3)
BUZZWIT Co., Ltd. (Note 3)	4,875	3.0	(30.0)
ELEMENT RULE Co., Ltd. (Note 4)	6,225	3.8	-
Other consolidated subsidiaries	2	0.0	-
Total (Japan)	150,987	93.0	(1.4)
Hong Kong	3,967	2.4	(12.2)
China	1,133	0.7	(19.7)
Taiwan	1,739	1.1	44.1
South Korea	907	0.6	29.7
USA (Note 5)	3,610	2.2	54.4
Total (Overseas)	11,357	7.0	11.6
Total (Group)	162,345	100.0	(0.6)

- 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. On August 1, 2018, Adastria conducted an absorption-type split where three business units including the *PAGEBOY* business unit of ALICIA CO., LTD. were divested and then transferred to Adastria. On the same day, ALICIA CO., LTD changed its name to BUZZWIT Co., Ltd.
 4. 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.
 5. As Velvet, LLC (USA) became a consolidated subsidiary at the end of the first quarter of FY2/18, YoY change on USA is the comparison of nine months (January to September) of FY2/19 to six months (April to September) of FY2/18.

(2) Sales for Merchandise Categories

Category	First nine months of FY2/19		YoY change (%)
	Sales (million yen)	Composition (%)	
Men's apparel (bottoms, tops)	22,090	13.6	(1.1)
Lady's apparel (bottoms, tops)	108,223	66.7	(0.1)
Others	32,031	19.7	(1.9)
Total	162,345	100.0	(0.6)

- 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 Feb. 28, 2018	First nine months of FY2/19					As of Nov. 30, 2018
		Absorption-type split	Opened	Changed	Closed	Increase /decrease	
GLOBAL WORK	210	-	8	-	(3)	5	215
niko and ...	132	-	8	-	(1)	7	139
STUDIO CLIP	195	-	3	-	(4)	(1)	194
LOWRYS FARM	149	-	3	-	(8)	(5)	144
LEPSIM	138	-	2	-	(4)	(2)	136
JEANASIS	76	-	1	-	(3)	(2)	74
BAYFLOW	39	-	10	-	-	10	49
RAGEBLUE	57	-	4	-	(2)	2	59
Others (Notes 3 and 4)	279	14	23	(1)	(22)	14	293
Total (Adastria)	1,275	14	62	(1)	(47)	28	1,303
BUZZWIT Co., Ltd. (Note 3)	100	(82)	4	2	(19)	(95)	5
ELEMENT RULE Co., Ltd. (Note 4)	-	68	10	-	(1)	77	77
Total (Japan)	1,375	-	76	1	(67)	10	1,385
Hong Kong	24	-	2	-	(2)	-	24
China	49	-	-	-	(24)	(24)	25
Taiwan	31	-	7	-	(3)	4	35
South Korea	11	-	-	-	-	-	11
USA	11	-	-	-	(1)	(1)	10
Total (Overseas)	126	-	9	-	(30)	(21)	105
Total (Group)	1,501	-	85	1	(97)	(11)	1,490

- 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. On August 1, 2018, Adastria conducted an absorption-type split where three business units including the *PAGEBOY* business unit of ALICIA CO., LTD. were divested and then transferred to Adastria. On the same day, ALICIA CO., LTD changed its name to BUZZWIT Co., Ltd.
 4. 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.

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.