

FY2019/02

Financial Results & Business Strategy

April 4, 2019

A D A S T R I A
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Play fashion!

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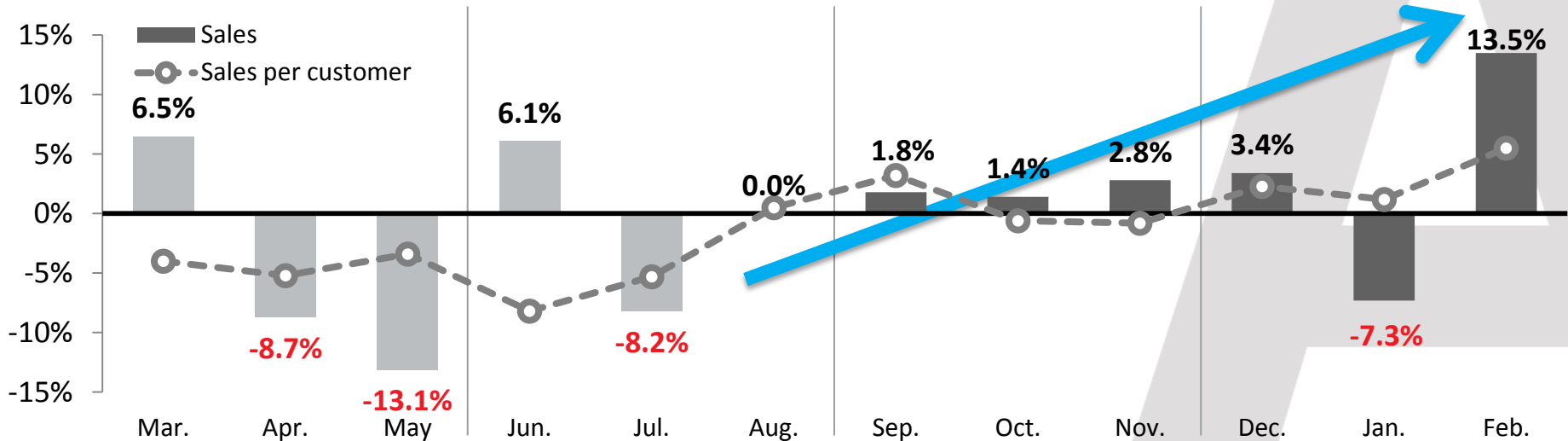
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I . FY2019/02 Overview

FY2019/02 Overview

Year-on-Year Change in Store Sales (Non-consolidated)



1H

- Big drop in summer merchandise sales in April and May because the selection did not sufficiently match customers' needs
- Quickly created an environment for rapidly making decisions and sharing information to make merchandise more appealing

2H

- Reduced discounted sales of merchandise by improving product design and creating a diverse and competitive pricing structure
- Core brands drove sales growth niko and... performed well throughout the fiscal year and there was an upturn in sales of GLOBAL WORK and LOWRYS FARM

Actions for Consistent Growth

Global

- ✓ Establish a presence in growing markets
- ✓ Place priority in being “local” in every country

Technology

- ✓ Use the IoT to improve the customer experience and fully utilize data analysis
- ✓ Shift to a business structure that can succeed in today’s era of digital technology

Sustainability

- ✓ Increase CSR and other activities involving social issues
- ✓ Aim for growth with consistent profitability

▼

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

II . FY2019/02 Financial Results FY2020/02 Forecast

Summary of FY2019/02

- **First half sales were weak but performance recovered in the second half**
 - First half sales decreased due to the inability to provide merchandise that adequately matched customers' needs
 - Improvements in merchandise, pricing and operations produced a recovery in the second half performance
 - FY2019/02 performance was below the forecast due to the weak first half sales and earnings
- **Flat sales but earnings increased**
 - Sales were about the same as one year earlier but operating profit and ordinary profit increased because of a decline in SG&A expenses
 - In addition, net income increased, partly because of an extraordinary loss in the previous fiscal year
- **Steady progress with initiatives based on growth strategies**
 - Began operating the new core IT system and started building a foundation for an omni-service business model
 - Upgraded and enlarged distribution capabilities to support growth of the online business

Consolidated Income Statement

Millions of yen

	FY2018/02		FY2019/02		
	Results		Results		
		Ratio		Ratio	YoY
Net sales	222,787	100.0%	222,664	100.0%	99.9%
Aadstria(Non-consolidated)	200,206	89.9%	195,427	87.8%	97.6%
Domestic subsidiaries *1	9,526	4.3%	15,091	6.8%	158.4%
Overseas subsidiaries *2	14,605	6.6%	15,308	6.9%	104.8%
Gross profit	120,795	54.2%	120,021	53.9%	99.4%
SG&A expenses	115,790	52.0%	112,831	50.7%	97.4%
Advertising & promotion	7,728	3.5%	8,176	3.7%	105.8%
Personnel	38,346	17.2%	39,200	17.6%	102.2%
Rent & depreciation	46,217	20.7%	44,396	19.9%	96.1%
Amortization of goodwill	2,648	1.2%	1,306	0.6%	49.3%
Others	20,849	9.4%	19,751	8.9%	94.7%
Operating profit	5,005	2.2%	7,190	3.2%	143.7%
Aadstria(non-consolidated, before amortization of goodwill)	8,616	-	8,529	-	99.0%
Domestic subsidiaries *1 (before amortization of goodwill)	▲ 289	-	▲ 27	-	-
Overseas subsidiaries (before amortization of goodwill) *2	▲ 1,905	-	▲ 2,388	-	-
Aadstria Logistics	672	-	743	-	110.5%
Ordinary profit	5,428	2.4%	7,345	3.3%	135.3%
Net income	863	0.4%	3,890	1.7%	450.3%
EBITDA	15,141	6.8%	15,317	6.9%	101.2%
Depreciation and amortization	7,488	3.4%	6,820	3.1%	91.1%
Amortization of goodwill	2,648	1.2%	1,306	0.6%	49.3%
Capital expenditure	13,247		12,201		

*1 : Domestic subsidiaries is the sum of three domestic subsidiaries: ALICIA Co.,Ltd., ELEMENT RULE Co., Ltd., Aadstria eat Creations Co.,Ltd.
The company name of ALICIA Co.,Ltd. was changed into BUZZWIT Co.,Ltd.in August 2018..

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

Consolidated Income Statement

■ Net sales: 222.6 billion yen (-0.1% YoY)

- Non-consolidated: Net sales of same stores declined 0.4% year on year
Sales of niko and ... and JEANASIS were strong throughout the fiscal year, and there was an upturn in sales of GLOBAL WORK and LOWRYS FARM in the second half
- Domestic subsidiaries: At the beginning of the FY2019/02, the BARNYARDSTORM and BABYLONE brands were transferred from parent company to ELEMENT RULE Co., Ltd.
In the second half, the three brands of the former ALICIA CO., LTD. were transferred to parent company
- Overseas subsidiaries: Progress with rebuilding operations in Hong Kong and China. Sales rose in Taiwan, South Korea and the U.S.

■ Gross profit margin: 53.9% (-0.3p YoY)

- 1H: Margin was down 1.9 point from one year earlier due to more discounted sales of summer merchandise in response to slow sales in April and May
- 2H: Margin was 1.1 point higher than one year earlier due to a big improvement in the discounting ratio resulting from the adjustment of merchandise and pricing

■ SG&A expense ratio: 50.7% (-1.3p YoY)

- Advertising & promotion: 3.7% (+0.2p YoY) Expenses for TV commercials decreased, but increased for e-commerce promotion
- Personnel: 17.6% (+0.4p YoY) Higher wages, more personnel added for new businesses, and an increase in expenses due to the consolidation of U.S. subsidiary
- Rent & depreciation: 19.9% (-0.8p YoY) Head office relocation raised expenses last year; decrease in the IT system removal charge
- Goodwill amortization: 0.6% (-0.6p YoY) TRINITY ARTS INC. goodwill amortization ended in August 2018
- Others: 8.9% (-0.5p YoY) Decrease in outsourcing fees; smaller than planned expenses for rebuilding overseas operations

■ Operating profit: 7.1 billion yen (+43.7% YoY)

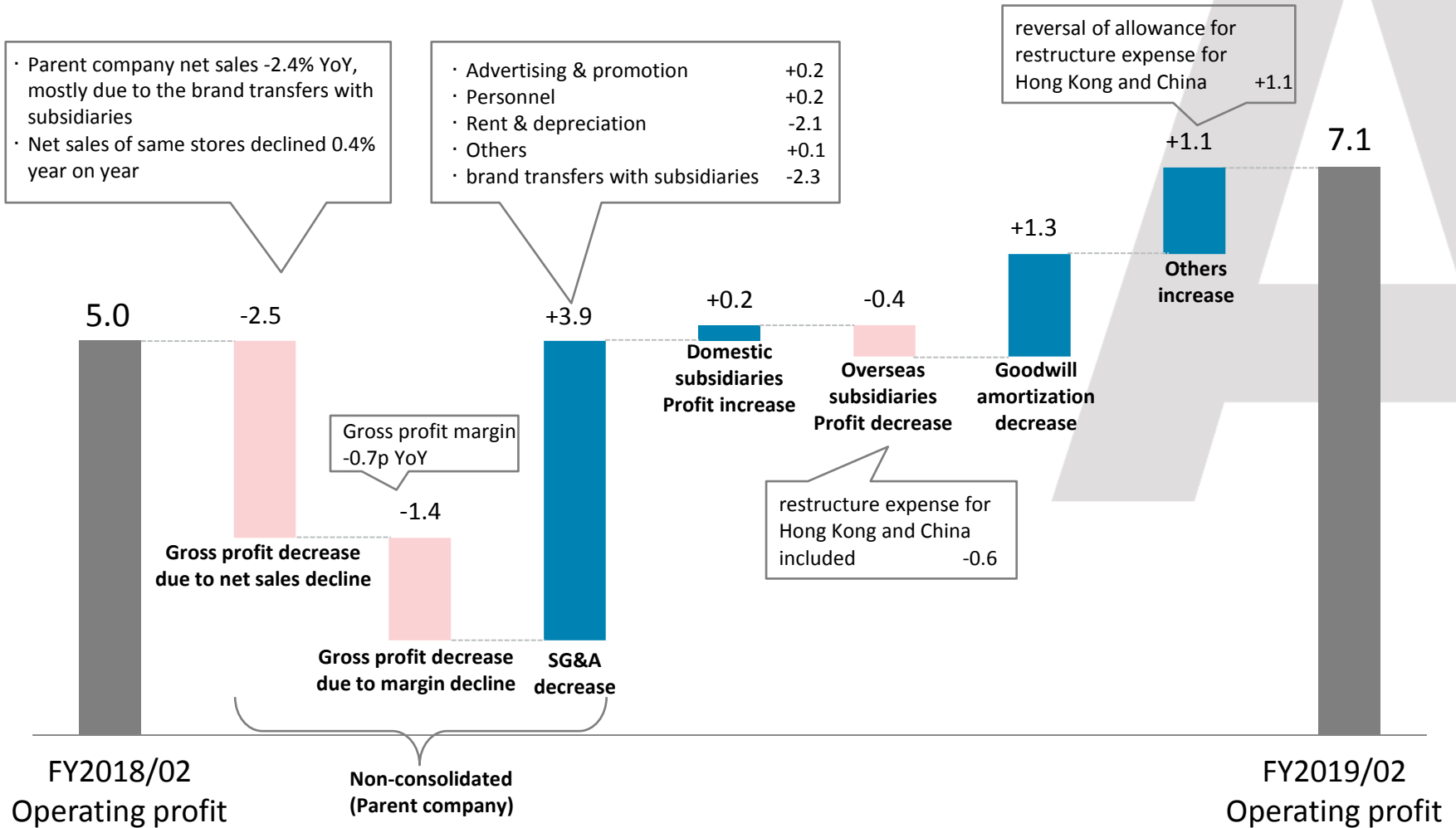
- Operating margin: 3.2% (+1.0p YoY), EBITDA margin: 6.9% (+0.1p YoY)

■ Net income: 3.8 billion yen (+350.3% YoY)

- Prior-year net income was reduced by extraordinary losses of ¥4.8 billion, including write-down of goodwill

Consolidate Operating Profit Increase Analysis

billions of yen



Non-consolidated(Parent company) Income Statement

Millions of yen

	FY2018/02	FY2019/02	
	Results	Results	
			YoY
Net sales	200,206	195,427	97.6%
(Same stores YoY)	99.4%	99.6%	
GLOBAL WORK *1	40,141	40,871	101.8%
niko and...	28,413	30,956	109.0%
studio CLIP	24,318	23,641	97.2%
LOWRYS FARM *1	24,409	22,491	92.1%
LEPSIM	15,308	14,806	96.7%
Gross profit	107,856	103,865	96.3%
Gross profit margin	53.9%	53.1%	▲ 0.7p
SG&A expenses (before amortization of goodwill)	99,239	95,336	96.1%
SG&A ratio	49.6%	48.8%	▲ 0.8p
Operating profit (before amortization of goodwill)	8,616	8,529	99.0%
Operating margin	4.3%	4.4%	+0.1p

- Two brands was transferred into subsidiary, ELEMENT RULE Co.,Ltd from FY2019/02
- Three brands was transferred from former ALICIA Co.,Ltd. into parent company in August 2018
- Net sales is flat year on year excluding the impact of the transfers mentioned above

Number of stores

Opened	99	66
Closed	▲ 67	▲ 92
Absorption-type split *2	-	14
Other change	-	▲ 1
Renovated	69	28
As of the end of fiscal year	1,275	1,262

*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 former ALICIA's three brands were added from August 2018.

Overseas Business

Millions of yen

	FY2018/02	FY2019/02		
	Results	Results		
			YoY (JPY)	YoY (Local currency)
Net sales	14,605	15,308	104.8%	106.0%
Hong Kong	6,255	5,300	84.7%	86.6%
China	1,992	1,416	71.1%	70.6%
Taiwan	1,885	2,417	128.2%	129.3%
South Korea	976	1,232	126.3%	124.8%
USA *1	3,496	4,940	141.3%	143.3%
Operating profit (before amortization of goodwill)	▲ 1,905	▲ 2,388	-	-
Hong Kong	▲ 581	▲ 1,226	-	-
China	▲ 343	▲ 953	-	-
Taiwan	170	66	39.2%	39.5%
South Korea	▲ 161	▲ 199	-	-
USA *1 (before amortization of goodwill)	▲ 989	▲ 75	-	-

*1: U.S. operations were effectively consolidated starting in FY2018/02 2Q

*2: All figures are the non-adjusted sums of the sales and operating profit of overseas subsidiaries

- In Hong Kong and China, closing of unprofitable stores and other measures to restructure operations have been largely completed
- In Taiwan and South Korea, niko and... was the primary source of growth
- In the United States, earnings improved significantly because of an increase in transactions with a prominent wholesale customer and the growth of the e-commerce business

Consolidated Balance Sheet

Millions of yen

	End of 2018/02		End of 2019/02		
		Ratio		Ratio	Compared with the end of 2018/02
Current assets	49,785	54.6%	50,116	54.9%	+331
Cash and deposits	19,446	21.3%	18,726	20.5%	▲ 719
Inventories	18,073	19.8%	17,592	19.3%	▲ 481
Fixed assets	41,338	45.4%	41,169	45.1%	▲ 168
Property, plant and equipment	12,324	13.5%	13,440	14.7%	+1,116
Goodwill	1,959	2.2%	648	0.7%	▲ 1,310
Investments and other assets	22,799	25.0%	21,838	23.9%	▲ 960
Total assets	91,123	100.0%	91,285	100.0%	+162
Liabilities	40,092	44.0%	38,326	42.0%	▲ 1,766
Interest-bearing debt	2,657	2.9%	2,552	2.8%	▲ 105
Net assets	51,030	56.0%	52,959	58.0%	+1,928
Treasury stocks	▲ 4,652	▲ 5.1%	▲ 4,575	▲ 5.0%	+76

FY2020/02 Consolidated Forecast

Millions of yen

	FY2019/02	FY2020/02		
	Results	Forecast		
			Ratio	YoY
Net sales	222,664	225,000	100.0%	101.0%
Operating profit	7,190	10,000	4.4%	139.1%
Ordinary profit	7,345	10,000	4.4%	136.1%
Net income	3,890	6,000	2.7%	154.2%
ROE	7.5%	11.0%	-	+3.5p
EBITDA	15,317	16,520	7.3%	107.9%
Depreciation & Amortization	6,820	6,400	2.8%	93.8%
Amortization of goodwill	1,306	120	0.1%	9.2%
Capital expenditure	12,201	10,300		

- Consolidated net sales is forecasted to be 225 billion yen (+1.0% YoY)
- Consolidated operating profit is forecasted to increase mainly due to the increase in profit of domestic business, decrease in overseas profit loss, and decrease in motorization of goodwill
- Capital expenditure is planned to use for store opening and renovation, EC & IT system, and new growth opportunity

FY2019/02 Forecast (Non-consolidated)

Millions of yen

	FY2019/02	FY2020/02	
	Results	Forecast	
Net sales	195,427	197,000	100.8%
(Same stores YoY)	99.6%	101.3%	
Gross profit	103,865	107,800	103.8%
Gross profit margin	53.1%	54.7%	+1.6p
SG&A expenses	96,423	98,300	101.9%
SG&A ratio	49.3%	49.9%	+0.6p
Operating profit	7,442	9,500	127.7%
Operating margin	3.8%	4.8%	+1.0p

Number of stores

Open	66	45
Close	▲ 92	▲ 40
Renovated	28	20
As of the end of fiscal year	1,262	1,267

- Net sales : 197 billion yen (+0.8% YoY)
 - Same stores sales year on year to increase 1.3% (+5% for online business)
- Gross profit margin: 54.7% (+1.6p YoY)
 - Optimize the inventory to decrease the price discount
 - Control the production cost
- SG&A expenses: 49.9% (+0.6p YoY)
 - Increase in personnel cost and marketing cost for company-own ecommerce website

Number of Stores

	FY2018/02	FY2019/02 Results				
	Fiscal year end	Transferred	Opened	Changed	Closed	end of fiscal year
GLOBAL WORK	210	-	8	0	▲ 5	213
niko and ...	132	-	9	0	▲ 2	139
studio CLIP	195	-	3	0	▲ 8	190
LOWRYS FARM	149	-	3	0	▲ 13	139
LEPSIM	138	-	2	0	▲ 8	132
JEANASIS	76	-	1	0	▲ 4	73
BAYFLOW	39	-	10	0	0	49
RAGEBLUE	57	-	4	0	▲ 3	58
Others	279	14	26	▲ 1	▲ 49	269
Adastria non-consolidated total	1,275	14	66	▲ 1	▲ 92	1,262
(Web store included)	(45)	(1)	(10)	(0)	(▲4)	(52)
Domestic subsidiaries total	100	▲ 14	14	2	▲ 22	80
(Web store included)	(7)	(▲1)	(8)	(0)	(0)	(14)
Japan total	1,375	-	80	1	▲ 114	1,342
(Web store included)	(52)	-	(18)	(0)	(▲4)	(66)
Hong Kong	24	-	3	0	▲ 7	20
China	49	-	0	1	▲ 40	10
Taiwan	31	-	7	0	▲ 4	34
South Korea	11	-	1	0	0	12
USA	11	-	0	0	▲ 2	9
Overseas total	126	-	11	1	▲ 53	85
(Web store included)	(8)	-	(5)	(0)	(0)	(13)
Consolidated total	1,501	-	91	2	▲ 167	1,427
(Web store included)	(60)	-	(23)	(0)	(▲4)	(79)

FY2020/02 Plan			
Opened	Changed	Closed	end of fiscal year
3	0	▲ 2	214
8	0	▲ 2	145
4	0	▲ 2	192
2	0	▲ 5	136
2	0	▲ 2	132
0	0	▲ 1	72
8	0	0	57
0	0	▲ 1	57
18	0	▲ 25	262
45	0	▲ 40	1,267
(5)	(0)	(0)	(57)
11	0	▲ 2	89
(2)	(0)	(▲1)	(15)
56	0	▲ 42	1,356
(7)	(0)	(▲1)	(72)
0	0	▲ 3	17
2	0	0	12
5	0	▲ 1	38
3	0	0	15
3	0	0	12
13	0	▲ 4	94
0	0	(0)	(13)
69	0	▲ 46	1,450
(7)	(0)	(▲1)	(85)

Return to Shareholders

Millions of yen

	FY2015/02	FY2016/02	FY2017/02	FY2018/02	FY2019/02	FY2020/02 (Forecast)
Dividend per share (Yen)	37.5	65	75	50	50	50
Interim dividend	(15)	(20)	(35)	(35)	(20)	(25)
Total dividend (MM yen)	1,821	3,138	3,608	2,379	2,379	2,379
Net income (consolidated)	503	9,122	11,575	863	3,890	6,000
Amortization of goodwill	2,937	2,213	2,184	4,712	1,306	120
Dividend payout ratio	361.5%	34.5%	30.9%	272.3%	60.5%	39.2%
(Amortization of goodwill excluded)	(52.9%)	(27.8%)	(26.0%)	(42.2%)	(45.3%)	(38.5%)
Share repurchase (MM yen)	0	1,395	2,564	0	0	-

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

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	Established an action plan for strengthening core brands Improved profitability by reducing price discounts and stopping sales of discounted “mystery gift” bags
	Use Adastria’s exclusive SPA (specialty store retailer of private label apparel) framework to improve product planning skills	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	Completed rebuilding Hong Kong/China operations Established business restructuring and growth strategies
	Start operations in new business domains	Brands exclusively for online business activities posted rapid growth Started operations in three new categories other than apparel
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

Growth Strategies –Key Initiatives in FY2020/02

FY2019/02–FY2021/02

Growth Strategies

Strategy 1: Build an infrastructure that can consistently increase earnings	Maintain proper inventory levels and control price discounts Improve the inventory turnover and reduce discounting ratio by retaining a tight focus on proper timing, pricing and volumes
	Use Adastia’s exclusive SPA (specialty store retailer of private label apparel) framework to improve product planning skills Improve ability to alter planning, production, distribution and sales activities to reflect changes in market conditions
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 Increase customer points of contact, including the use of omni-services, and raise awareness of Adastia’s e-commerce business
	Rebuild overseas operations Improve profitability in the Asian business/Use region-specific growth strategies to advance overseas operations to a growth phase
	Start operations in new business domains Contributions to consolidated performance by businesses started in FY2019/02 /Start opening new locations at the restaurant subsidiary
Strategy 3: Build a foundation that can support innovation and growth	Make management of the entire Adastia Group more powerful Play a role in solving social and business issues/Raise productivity of internal group functions

Three Year Plan Target (FY2019/02–FY2021/02)

	FY2019/02 Results	FY2020/02 Forecast	FY2021/02 Target
Operating margin	3.2%	4.4%	8.0%
ROE	7.5%	11.0%	Approx. 15%

IV. Initiatives for Growth Strategies

Operations in Japan

A tight focus on proper timing, pricing and volumes

■ Use production that matches real demand for reducing discounting ratio and controlling inventories

- With the cooperation of partner factories, maintain required levels of raw materials and production capacity; enlarge production capabilities to match quick response production during the season
- Cut costs by starting to use factories in the interior of China and increasing production in the ASEAN region
- Continue to use a diverse and competitive pricing structure

No more sales of discounted “mystery gift” bags in 2019

- The production of merchandise exclusively for “mystery gift” bags reduced profitability and damaged the value of brands
- Stopping “mystery gift” bag sales in 2019 is a response to the increasing attention the public pays to ethical behavior as well as a measure for dealing with excessive inventories, which is a problem throughout the apparel retail sector

Ending “mystery gift” bag sales significantly raised the gross profit margin in the second half of FY2019/02



Operations in Japan

niko and ...

- FY2019/02 sales: **30.9** billion yen (+9.0% YoY)
- Key initiatives in FY2020/02
 - Strengthen the men's apparel lineup and add new categories (furniture, restaurants)
 - Increase floor size of stores
 - Proactive advertising and marketing activities, special events, and collaboration with various partners



Operations in Japan

GLOBAL WORK

■ FY2019/02 sales: **40.8** billion yen (+1.8% YoY)

■ Key initiatives in FY2020/02

- Establish a hybrid (quiet periods + during season/quick response) flow of tasks for planning activities
- Add household goods category using the Global Work General Goods (G.W.G.G.) brand into 50 large size stores. Strengthen the ability to use this lifestyle brand to be a source of new ideas for consumers



Operations in Japan



■ FY2019/02 sales: **22.4** billion yen (-7.9% YoY)

- A big recovery in same store sales; YoY decrease in the first half to YoY growth in the second half

■ Key initiatives in FY2020/02

- Rebranding in spring/summer 2019 to match the shift in the age segments of the fans of this brand
- More merchandising targeting women in their 30s, including activities tied to special promotions



Overseas Business

- In FY2019/02, the closing of unprofitable stores and other measures to rebuild operations in Hong Kong/China were completed
- Starting in FY2020/02, growth strategies were established to make overseas operations profitable and aim for more growth

Physical stores

Dominance strategy using flagship stores

- Use flagship stores to raise brand recognition; also open satellite stores that can also direct customers to the e-commerce business
- Taiwan/South Korea:
Rapid growth and strong performance due to the dominance strategy
- China:
Scheduled to open a niko and ... flagship store in Shanghai



E-commerce site

Multi-brand strategy

- Use e-commerce for initial activities for brands with no overseas stores and access the potential for physical store
- Taiwan: For Adastria's [.st] TAIWAN e-commerce operations, conduct trials for the STUDIO CLIP, BAYFLOW and REPIPI ARMARIO brands



BAYFLOW



「Respect nature,
Respect fashion」



[.st]
Three popular
Japanese brands
熱銷推薦

studioCLIP



repi pi armario



repi pi = Image of adults
armario = Apparel

A new side trip
every day



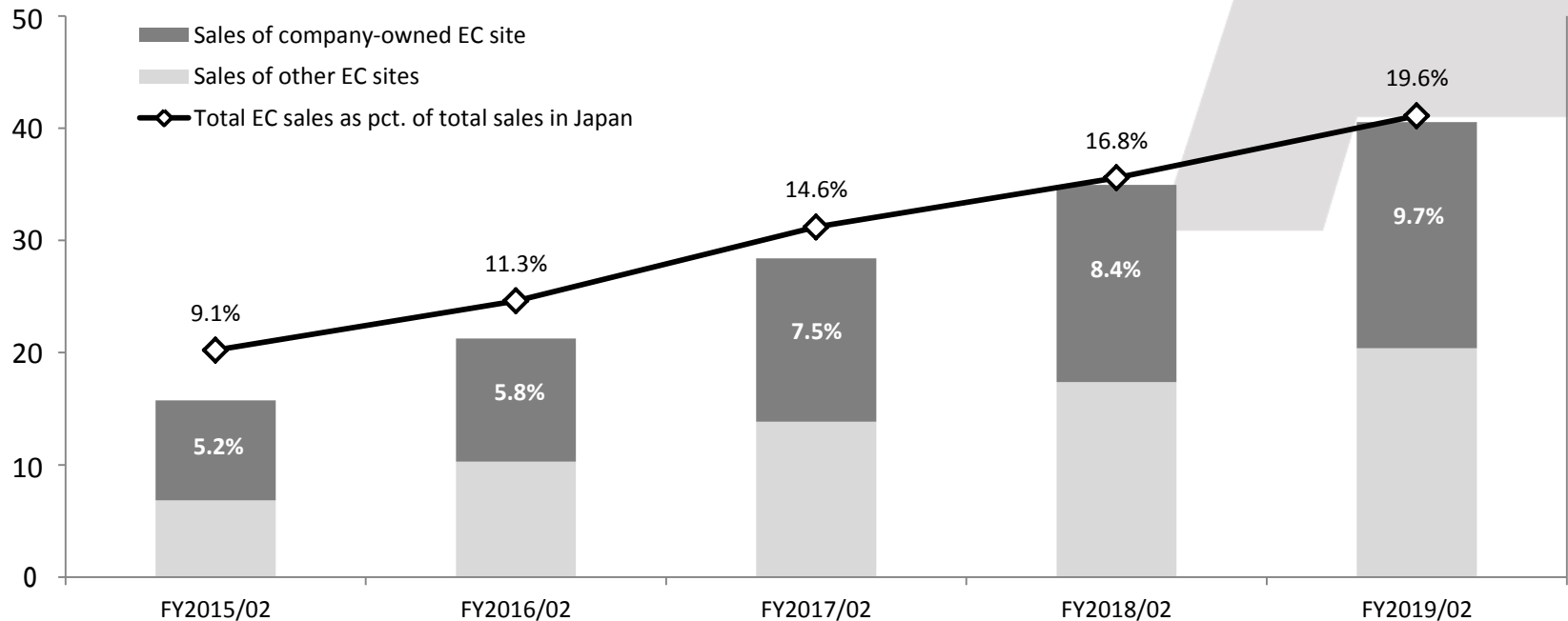
Online Business

Steady growth of online business

■ FY2019/02 domestic e-commerce sales: **40.5** billion yen (+16.0% YoY)

- Pct. of sales in Japan: 19.6% (company-owned EC site: approx. 9.7%)
- Member of company-owned EC site [.st]: approx. 8.7 million (+1.7 million YoY)
- Company-owned EC site is growing along with the increasing number of members

(Billions of yen)



* Starting in FY2018/02, non-consolidated sales and sales in ALICIA CO., LTD. were included.

* Starting in FY2019/02, non-consolidated sales and sales in ALICIA CO., LTD. and ELEMENT RULE Co., Ltd. are included. ALICIA CO., was renamed BUZZWIT Co., Ltd. in August 2018.

Online Business

Priority is growth of the company-owned EC site [.st]

■ Key initiatives in FY2020/02

- Measures to raise awareness in order to increase membership to 10 million
- More customer points of contact and greater convenience by using the omni channel service

< Fundamental position regarding omni channel services >

Connect online and offline to provide customers greater shopping experience

More customer points of contact to speeding up the growth of both channels

Increase customer loyalty

Start omni-service in May, 2019

- Online order for store pickup ■ Online reservation for store fitting
- Online order to return in store ■ Store order for home delivery

*The timing of start will vary depends on brands and store locations



New Business

Continue trials for new business models in order to cover more market domains

bijorie

- Underwear brand for women
- First physical store opened in March 2019 after online sales started to growth



BUZZWIT

- A business format exclusively for online under consolidated subsidiary BUZZWIT
- Started a year ago and the annual sales reached approx. 2 billion yen



après jour



kutir

New Business

Continue trials for new business models in order to cover more market domains

- Consolidated subsidiary, Adastria eat Creations, will open its first restaurant location

Lung-Hua Chinese Palar

- LUMINE Ikebukuro store scheduled to open on April 25, 2019



Infrastructure for Business Operations

Our commitment to sustainable management

■ Policy for Corporate Social Responsibility Activities

- The Adastria Group has established a policy for activities involving important CSR themes, which are also consistent with the sustainable development goals, in order to play a role in dealing with a variety of social issues

Protect the environment



We will reduce our environmental impact across the entire value chain and make sustainability one of the priorities of our business activities



Make people shine



We will maintain pleasant and stimulating workplaces for many types of employees and provide stores, merchandise and services that can earn the satisfaction of a broad spectrum of customers.



Growing with communities



We will pursue innovation with communities, help solve community issues and make our business operations even stronger



A D A S T R I A
— *Play fashion!*

