

Summary of Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending February 29, 2020
(Six Months Ended August 31, 2019)

[Japanese GAAP]

September 30, 2019

Company name: Adastria Co., Ltd. Listing: TSE 1st section
 Stock code: 2685 URL: <https://www.adastria.co.jp>
 Representative: Michio Fukuda, Chairman of the Board
 Contact: Kazushi Sekimori, Deputy Executive General Manager, General Headquarters of Management Tel: +81-3-5466-2060
 Scheduled date of filing of Quarterly Report: October 15, 2019
 Scheduled date of payment of dividend: October 21, 2019
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for investors)

Note: The original disclosure in Japanese was released on September 30, 2019 at 15:00 (GMT +9).

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

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending February 29, 2020
(March 1, 2019 – August 31, 2019)

(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	%
Six months ended Aug. 31, 2019	108,981	3.8	7,164	-	6,987	-	4,410	-
Six months ended Aug. 31, 2018	105,005	(2.6)	529	(86.0)	600	(84.6)	(554)	-

Note: Comprehensive income Six months ended Aug. 31, 2019: 4,469 million yen (-%)
 Six months ended Aug. 31, 2018: (744) million yen (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Aug. 31, 2019	93.66	-
Six months ended Aug. 31, 2018	(11.79)	-

Reference: EBITDA Six months ended Aug. 31, 2019: 10,557 million yen (up 115.6%)
 Six months ended Aug. 31, 2018: 4,895 million yen
 EPS before goodwill amortization Six months ended Aug. 31, 2019: 95.53 yen (up 628.4%)
 Six months ended Aug. 31, 2018: 13.11 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 2.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Aug. 31, 2019	96,615	56,056	58.0
As of Feb. 28, 2019	91,263	52,959	58.0

Reference: Shareholders' equity As of Aug. 31, 2019: 56,056 million yen As of Feb. 28, 2019: 52,959 million yen

Note: Starting with the beginning of the first quarter of the current fiscal year, Adastria is applying "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018). Figures as of Feb. 28, 2019 have been adjusted retroactively in accordance with these amendments.

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Feb. 28, 2019	-	20.00	-	30.00	50.00
Fiscal year ending Feb. 29, 2020	-	25.00	-	-	-
Fiscal year ending Feb. 29, 2020 (forecast)	-	-	-	25.00	50.00

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

3. Consolidated Forecast for the Fiscal Year Ending February 29, 2020 (March 1, 2019 – February 29, 2020)

(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	225,000	1.0	10,000	39.1	10,000	36.1	6,000	54.2	127.49

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

Reference: EBITDA Fiscal year ending Feb. 29, 2020 (forecast): 16,520 million yen (up 7.9%)
 EPS before goodwill amortization Fiscal year ending Feb. 29, 2020 (forecast): 130.04 yen (up 17.8%)

*** 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: Yes

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

3) Changes in accounting-based estimates: None

4) Restatements: None

Note: Please refer to the section “2. Quarterly Consolidated Financial Statements and Notes, (4) Notes to Quarterly Consolidated Financial Statements, Changes in Accounting Policies” on page 9 for further information.

(4) Number of outstanding shares (common stock)

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

As of Aug. 31, 2019:	48,800,000 shares	As of Feb. 28, 2019:	48,800,000 shares
----------------------	-------------------	----------------------	-------------------

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

As of Aug. 31, 2019:	1,679,137 shares	As of Feb. 28, 2019:	1,736,973 shares
----------------------	------------------	----------------------	------------------

3) Average number of shares outstanding during the period

Six months ended Aug. 31, 2019:	47,093,537 shares	Six months ended Aug. 31, 2018:	47,053,776 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) Quarterly Consolidated Statement of Cash Flows	8
(4) Notes to Quarterly Consolidated Financial Statements	9
Going Concern Assumption	9
Significant Changes in Shareholders' Equity	9
Changes in Accounting Policies	9
Additional Information	9
3. Supplementary Information	10
(1) Sales for Brands and Regions	10
(2) Sales for Merchandise Categories	10
(3) Number of Stores	11

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

Consolidated results

(Million yen)

	First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)	First six months of FY2/20 (Mar. 1, 2019 – Aug. 31, 2019)	YoY change (Amount)	YoY change (%)
Net sales	105,005	108,981	3,975	3.8
Operating profit	529	7,164	6,635	1252.6
Ordinary profit	600	6,987	6,387	1064.5
Net income attributable to owners of the parent	(554)	4,410	4,965	-

EBITDA	4,895	10,557	5,661	115.6
EPS before goodwill amortization (Yen)	13.11	95.53	82.41	628.4

Consolidated net sales in the first half (March 1 – August 31, 2019) increased 3.8% year-on-year to 108,981 million yen, operating profit increased 1252.6% to 7,164 million yen, ordinary profit increased 1064.5% to 6,987 million yen, and net income attributable to owners of the parent was 4,410 million yen (net loss of 554 million yen in the same period of the previous fiscal year).

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased 115.6% to 10,557 million yen and earnings per share (EPS) before goodwill amortization rose 628.4% to 95.53 yen. (*)

Sales in Japan were 5.1% higher than one year earlier. The main reasons were a solid recovery in the sales of core brands such as *GLOBAL WORK*, *LOWRYS FARM* that had difficulties in the previous fiscal year and generally strong sales of *niko and ...*, *BAYFLOW* and other brands.

Operation of our “.st” e-commerce site has been suspended since August 8 due to problems with the switch to the new system. However, the growth in sales at physical stores was able to cover the impact of the shortfall in turnover.

In other countries, sales in the wholesale and retailing businesses were steady in the United States. In Hong Kong and China, sales were down following the closing of unprofitable stores in the previous fiscal year.

We opened 26 stores (including 1 overseas) and closed 24 stores (including 6 overseas), resulting in a total network of 1,429 stores (including 80 overseas) at the end of second quarter of this fiscal year.

In terms of profitability, consistent provision of products on a “proper timing, pricing and volumes” basis has enabled stable management of operations and tighter control of sales at reduced prices with the result that the discounting ratio has greatly improved. As a result, the gross profit margin increased 2.3 percentage points from one year earlier to 56.2%.

The ratio of selling, general and administrative (SG&A) expenses to sales decreased 3.8 percentage points to 49.6%, resulting in a 6.1 percentage point increase in the operating margin to 6.6%. SG&A expenses were 2,023 million yen less than one year earlier. One reason was a decrease in advertising expenses as e-commerce promotion expenses were held down. The completion at the end of the previous 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 losses of 49 million yen for the impairment of store assets.

(*) Since the fiscal year that ended on February 28, 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

1) Balance sheet position

Total assets increased 5,351 million yen from as of February 28, 2019 to 96,615 million yen as of August 31, 2019. Inventories decreased 726 million yen but there were increases of 2,923 million yen in cash and deposits, 2,055 million yen in other, net under property, plant and equipment, partly because of right-of-use assets resulting from the application of IFRS 16 and 1,449 million yen in other (software in progress, etc.) under intangible assets.

Liabilities increased 2,254 million yen to 40,558 million yen. Electronically recorded obligations-operating decreased 1,932 million yen but there were increases of 1,809 million yen in income taxes payable, 1,117 million yen in notes and accounts payable-trade and 1,385 million yen in other under current liabilities, including lease liabilities resulting from the application of IFRS 16.

Net assets increased 3,097 million yen to 56,056 million yen. This was mainly due to an increase in retained earnings of 2,848 million yen.

2) Cash flow position

Cash and cash equivalents (hereinafter “net cash”) as of August 31, 2019 amounted to 21,575 million yen, or 2,927 million yen more than as of February 28, 2019.

A summary of cash flows from each activity during the first half of the current fiscal year is as follows:

Cash flows from operating activities

Net cash provided by operating activities totaled 8,246 million yen (compared with 2,516 million yen provided in the same period of the previous fiscal year). The main positive factors include net income before income taxes of 6,933 million yen and depreciation of 3,444 million yen. Main negative factors include a decrease in accounts payable-other of 1,438 million yen and income taxes paid of 1,183 million yen.

Cash flows from investing activities

Net cash used in investing activities totaled 3,042 million yen (compared with 5,326 million yen used in the same period of the previous fiscal year). This was mainly due to the payments of 2,077 million yen for the purchase of property, plant and equipment and 1,215 million yen for the purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities totaled 2,225 million yen (compared with 888 million yen used in the same period of the previous fiscal year). This was mainly due to cash dividends paid of 1,427 million yen and repayments of lease obligations of 654 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, 2019.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	FY2/19 (As of Feb. 28, 2019)	Second quarter of FY2/20 (As of Aug. 31, 2019)
Assets		
Current assets		
Cash and deposits	18,726	21,649
Notes and accounts receivable-trade	9,780	10,388
Inventories	17,592	16,865
Other	2,016	1,664
Allowance for doubtful accounts	(65)	(95)
Total current assets	48,050	50,472
Non-current assets		
Property, plant and equipment		
Store interior equipment, net	6,226	5,822
Other, net	7,214	9,269
Total property, plant and equipment	13,440	15,092
Intangible assets		
Goodwill	648	555
Other	5,241	6,690
Total intangible assets	5,889	7,245
Investments and other assets		
Investment securities	828	681
Lease and guarantee deposits	16,947	16,741
Other	6,401	6,674
Allowance for doubtful accounts	(294)	(292)
Total investments and other assets	23,882	23,804
Total non-current assets	43,213	46,142
Total assets	91,263	96,615
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,267	10,385
Electronically recorded obligations-operating	9,635	7,702
Short-term loans payable	2,552	2,344
Accounts payable-other	9,703	9,362
Income taxes payable	1,376	3,185
Provision for bonuses	2,506	2,548
Provision for point card certificates	1,084	1,060
Other provision	361	269
Other	340	1,726
Total current liabilities	36,829	38,585
Non-current liabilities		
Provision	314	210
Other	1,160	1,761
Total non-current liabilities	1,474	1,972
Total liabilities	38,303	40,558

(Million yen)

	FY2/19 (As of Feb. 28, 2019)	Second quarter of FY2/20 (As of Aug. 31, 2019)
Net assets		
Shareholders' equity		
Capital stock	2,660	2,660
Capital surplus	7,227	7,213
Retained earnings	47,469	50,318
Treasury shares	(4,575)	(4,371)
Total shareholders' equity	52,781	55,820
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(7)	(121)
Deferred gains or losses on hedges	(8)	(57)
Foreign currency translation adjustment	193	415
Total accumulated other comprehensive income	177	236
Total net assets	52,959	56,056
Total liabilities and net assets	91,263	96,615

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

(Million yen)

	First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)	First six months of FY2/20 (Mar. 1, 2019 – Aug. 31, 2019)
Net sales	105,005	108,981
Cost of sales	48,356	47,720
Gross profit	56,649	61,261
Selling, general and administrative expenses	56,119	54,096
Operating profit	529	7,164
Non-operating income		
Dividend income	12	13
House rent income	47	-
Gain on valuation of derivatives	-	91
Other	183	175
Total non-operating income	244	279
Non-operating expenses		
Interest expenses	18	67
Foreign exchange losses	52	377
Loss on valuation of derivatives	47	-
Cost of lease revenue	44	-
Other	11	11
Total non-operating expenses	173	456
Ordinary profit	600	6,987
Extraordinary losses		
Impairment loss	276	49
Loss on sales of investment securities	-	4
Total extraordinary losses	276	53
Net income before income taxes	323	6,933
Income taxes-current	1,142	2,734
Income taxes-deferred	(263)	(211)
Total income taxes	878	2,522
Net income (loss)	(554)	4,410
Net income (loss) attributable to owners of the parent	(554)	4,410

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

(Million yen)

	First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)	First six months of FY2/20 (Mar. 1, 2019 – Aug. 31, 2019)
Net income (loss)	(554)	4,410
Other comprehensive income		
Valuation difference on available-for-sale securities	(72)	(114)
Deferred gains or losses on hedges	107	(48)
Foreign currency translation adjustment	(224)	221
Total other comprehensive income	(189)	58
Comprehensive income	(744)	4,469
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(744)	4,469
Comprehensive income attributable to non-controlling interests	-	-

(3) Quarterly Consolidated Statement of Cash Flows

(Million yen)

	First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)	First six months of FY2/20 (Mar. 1, 2019 – Aug. 31, 2019)
Cash flows from operating activities		
Net income before income taxes	323	6,933
Depreciation	3,258	3,444
Impairment loss	276	49
Amortization of goodwill	1,172	87
Increase (decrease) in allowance for doubtful accounts	(9)	28
Increase (decrease) in provision for bonuses	95	43
Increase (decrease) in provision for point card certificates	122	(24)
Increase (decrease) in provision for loss on business liquidation	(182)	-
Decrease (increase) in notes and accounts receivable-trade	(1,220)	(630)
Decrease (increase) in inventories	197	670
Increase (decrease) in notes and accounts payable-trade	(538)	(798)
Increase (decrease) in accounts payable-other	(170)	(1,438)
Increase (decrease) in accrued consumption taxes	188	456
Other, net	(116)	658
Subtotal	3,398	9,481
Interest and dividend income received	13	16
Interest expenses paid	(18)	(67)
Income taxes paid	(877)	(1,183)
Net cash provided by (used in) operating activities	2,516	8,246
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,093)	(2,077)
Purchase of intangible assets	(1,353)	(1,215)
Proceeds from sales of investment securities	-	27
Payments for lease and guarantee deposits	(484)	(385)
Proceeds from collection of lease and guarantee deposits	626	658
Other, net	(20)	(50)
Net cash provided by (used in) investing activities	(5,326)	(3,042)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	(57)	(140)
Cash dividends paid	(715)	(1,427)
Purchase of treasury shares	(1)	(2)
Repayments of lease obligations	(114)	(654)
Other, net	-	0
Net cash provided by (used in) financing activities	(888)	(2,225)
Effect of exchange rate change on cash and cash equivalents	(49)	(50)
Net increase (decrease) in cash and cash equivalents	(3,747)	2,927
Cash and cash equivalents at beginning of period	19,381	18,647
Cash and cash equivalents at end of period	15,633	21,575

(4) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Accounting Policies

Application of IFRS 16 “Leases”

Starting with the first quarter of the current fiscal year, some consolidated subsidiaries are using IFRS 16. To begin applying this standard, Adastria is using the approved transitional treatment of recognizing the cumulative effect of applying this standard on the first day that this standard was applied. Consequently, there were adjustments to retained earnings, right-of-use assets and lease liabilities at the beginning of the first quarter. The effect of this change on profit or loss in the first half of the current fiscal year is insignificant.

Additional Information

Application of the “Partial Amendments to Accounting Standard for Tax Effect Accounting,” etc.

Starting with the beginning of the first quarter of the current fiscal year, Adastria is applying “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ No. 28, February 16, 2018) and other related pronouncements. Accordingly, deferred tax assets and deferred tax liabilities have been presented in the investments and other assets section and the non-current liabilities section of the balance sheet, respectively.

3. Supplementary Information

(1) Sales for Brands and Regions

Brand / region	First six months of FY2/20		YoY change (%)
	Sales (million yen)	Composition (%)	
GLOBAL WORK	19,887	18.3	6.2
niko and ...	15,731	14.4	4.0
LOWRYS FARM	11,919	11.0	15.7
STUDIO CLIP	11,475	10.5	(3.4)
LEPSIM	7,127	6.5	(0.7)
JEANASIS	5,811	5.3	1.8
BAYFLOW	4,726	4.4	16.7
RAGEBLUE	3,531	3.2	(2.1)
Others (Note 3)	15,353	14.1	17.7
Total (Adastria)	95,564	87.7	6.6
BUZZWIT Co., Ltd. (Note 3)	2,315	2.1	(45.0)
ELEMENT RULE Co., Ltd.	4,892	4.5	24.4
Other consolidated subsidiaries	17	0.0	969.5
Total (Japan)	102,789	94.3	5.1
Hong Kong	1,687	1.5	(35.5)
China	273	0.3	(65.6)
Taiwan	1,164	1.1	1.3
South Korea	592	0.5	0.3
USA	2,474	2.3	18.8
Total (Overseas)	6,191	5.7	(14.4)
Total (Group)	108,981	100.0	3.8

- 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. In August 2018, three business units including the *PAGEBOY* business unit of BUZZWIT Co., Ltd. (formerly ALICIA CO., LTD.) were transferred to Adastria. As a result, the rate of YoY change was calculated based on the sales of the three business units prior to the transfer, which were included in BUZZWIT sales.

(2) Sales for Merchandise Categories

Category	First six months of FY2/20		YoY change (%)
	Sales (million yen)	Composition (%)	
Men's apparel (bottoms, tops)	15,105	13.9	6.4
Lady's apparel (bottoms, tops)	72,236	66.3	3.6
Others	21,639	19.8	2.5
Total	108,981	100.0	3.8

- 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, 2019	First six months of FY2/20				As of Aug. 31, 2019
		Opened	Changed	Closed	Increase /decrease	
GLOBAL WORK	213	2	-	(2)	-	213
niko and ...	139	5	-	(1)	4	143
LOWRYS FARM	139	-	-	(2)	(2)	137
STUDIO CLIP	190	3	-	(1)	2	192
LEPSIM	132	1	-	-	1	133
JEANASIS	73	-	-	-	-	73
BAYFLOW	49	6	-	-	6	55
RAGEBLUE	58	-	-	(1)	(1)	57
Others	269	2	-	(9)	(7)	262
Total (Adastia)	1,262	19	-	(16)	3	1,265
BUZZWIT Co., Ltd.	5	1	-	-	1	6
ELEMENT RULE Co., Ltd.	75	4	-	(2)	2	77
Other consolidated subsidiaries	-	1	-	-	1	1
Total (Japan)	1,342	25	-	(18)	7	1,349
Hong Kong	20	-	-	(2)	(2)	18
China	10	-	-	(3)	(3)	7
Taiwan	34	1	-	(1)	-	34
South Korea	12	-	-	-	-	12
USA	9	-	-	-	-	9
Total (Overseas)	85	1	-	(6)	(5)	80
Total (Group)	1,427	26	-	(24)	2	1,429

- 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 Adastia.

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.