

FY2020/02 1H Financial Results & Business Strategy

September 30, 2019

A D A S T R I A
— *Play fashion!*

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I . FY2020/02 1st Half Overview



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 . FY2020/02 1st Half Financial Results

Summary of FY2020/02 1H

■ Increase in sales and profit

- Clearly defined the core targeted customer segments and reexamined the merchandise lineup to increase the momentum of the recovery of GLOBAL WORK, LOWRYS FARM and other core brands that faced challenges in 1H of FY2019/02. The result was growth that raised consolidated sales to an all-time high for the first half of a fiscal year
- In addition, earnings increased significantly as the gross profit margin improved and the SG&A expense ratio decreased

■ A tight focus on proper timing, pricing and volumes

- In 1H of FY2019/02, sales of slow-selling merchandise at discounted prices increased
In 1H of FY2020/02, there was a tight focus on proper timing, pricing and volumes
- Reduced discounted sales of merchandise and maintained proper inventory levels

■ Problems occurred with the switch to a new system for the Adastria EC site

Consolidated Income Statement

Millions of yen

	FY2019/02 1H		FY2020/02 1H		
	Results		Results		
		Ratio		Ratio	YoY
Net sales	105,005	100.0%	108,981	100.0%	103.8%
Adastria(Non-consolidated)	91,125	86.8%	97,071	89.1%	106.5%
Domestic subsidiaries *1	8,167	7.8%	7,244	6.6%	88.7%
Overseas subsidiaries *2	7,247	6.9%	6,199	5.7%	85.5%
Gross profit	56,649	53.9%	61,261	56.2%	108.1%
SG&A expenses	56,119	53.4%	54,096	49.6%	96.4%
Advertising & promotion	3,981	3.8%	3,781	3.5%	95.0%
Personnel	19,581	18.6%	19,544	17.9%	99.8%
Rent & depreciation	21,456	20.4%	20,411	18.7%	95.1%
Amortization of goodwill	1,172	1.1%	87	0.1%	7.5%
Others	9,927	9.5%	10,269	9.4%	103.4%
Operating profit	529	0.5%	7,164	6.6%	1352.6%
Adastria(non-consolidated)	1,305	-	6,584	-	504.6%
Domestic subsidiaries *1	▲ 509	-	320	-	-
Overseas subsidiaries *2	▲ 1,050	-	▲ 319	-	-
Adastria Logistics	387	-	409	-	105.6%
Ordinary profit	600	0.6%	6,987	6.4%	1164.5%
Net income	▲ 554	-	4,410	4.0%	-
EBITDA	4,895	4.7%	10,557	9.7%	215.6%
Depreciation and amortization	3,194	3.0%	3,304	3.0%	103.5%
Amortization of goodwill	1,172	1.1%	87	0.1%	7.5%
Capital expenditure	8,575		4,794		

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

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

Consolidated Income Statement

■ Net sales: 108.9 billion yen (+3.8% YoY)

- Non-consolidated: Solid performances of some brands such as GLOBAL WORK, niko and ..., LOWRYS FARM, and BAYFLOW
- Domestic subsidiaries: Steady growth of ELEMENT RULE and BUZZWIT
(In 2H of FY2019/02, the three brands of the former ALICIA were transferred to the parent company)
- Overseas subsidiaries: Sales declined in Hong Kong and China due to the close of unprofitable stores in FY2019/02. Double digit sales growth rate in USA

■ Gross profit margin: 56.2% (+2.3p YoY)

- Big improvement in the discounting ratio by properly controlling inventories

■ SG&A expense ratio: 49.6% (-3.8p YoY)

- Advertising & promotion: 3.5% (-0.3p YoY) Expenses for e-commerce promotion decreased
- Personnel: 17.9% (-0.7p YoY) flat in amount, ratio down due to sales growth
- Rent & depreciation: 18.7% (-1.7p YoY) Lower rent as the number of stores decreased YoY
- Goodwill amortization: 0.1% (-1.0p YoY) TRINITY ARTS goodwill amortization ended in previous 1st half

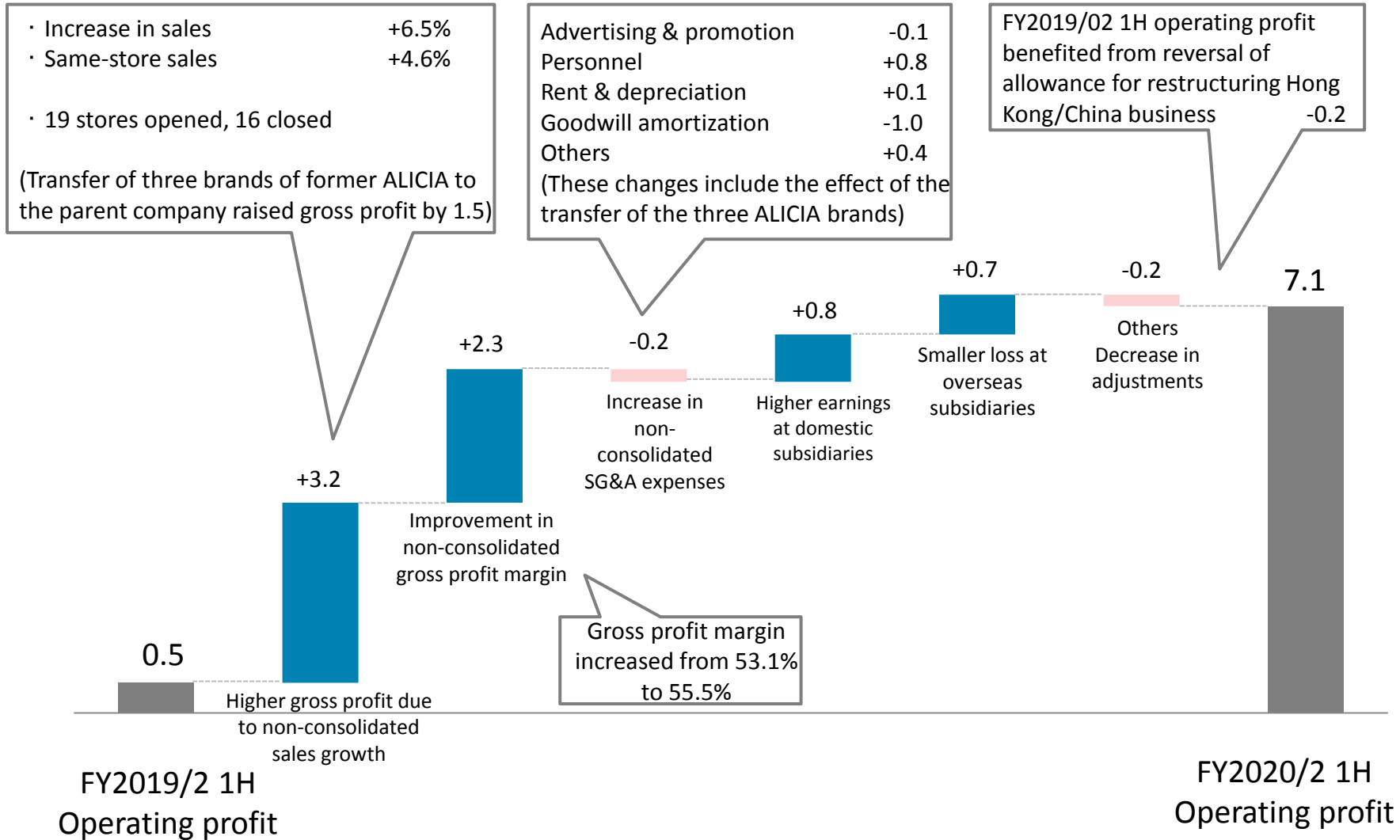
■ Operating profit: 7.1 billion yen (+1252.6% YoY)

- Operating margin: 6.6% (+6.1p YoY), EBITDA margin: 9.7% (+5.0p YoY)
- Big increase in non-consolidated earnings, higher earnings at subsidiaries in Japan, smaller loss at overseas subsidiaries

■ Net income: 4.4 billion yen

FY2020/02 1H Analysis of Change in Operating Profit

Billions of yen



Parent Company (non-consolidated) Income Statement

Millions of yen

	FY2019/02 1H	FY2020/02 1H	
	Results	Results	
Net sales	91,125	97,071	106.5%
(Existing stores YoY)	95.8%	104.6%	
GLOBAL WORK	18,726	19,887	106.2%
niko and...	15,124	15,731	104.0%
LOWRYS FARM	10,300	11,919	115.7%
studio CLIP	11,883	11,475	96.6%
LEPSIM	7,174	7,127	99.3%
Gross profit	48,408	53,908	111.4%
Gross margin	53.1%	55.5%	+2.4p
SG&A expenses	47,103	47,323	100.5%
SG&A ratio	51.7%	48.8%	▲ 2.9p
Operating profit	1,305	6,584	504.6%
Operating margin	1.4%	6.8%	+5.4p

Opened	36	19
Closed	33	16
Renovated	19	14
As of the end of 1H	1,292	1,265

* : Amortization of goodwill FY2019/02 1H: 1,004million yen, FY2020/02 1H: 65million yen

- Same-stores sales increased 4.6% year on year, which the 5.0% increase in online sales was included
- Three brands of the former ALICIA were transferred to the parent company in August 2018

Overseas Business

Millions of yen

	FY2019/02 1H	FY2020/02 1H		
	Results		Results	
			YoY (JPY)	YoY (Local currency)
Net sales	7,247	6,199	85.5%	86.1%
Hong Kong	2,616	1,687	64.5%	63.7%
China	793	273	34.4%	36.1%
Taiwan	1,149	1,164	101.3%	105.0%
Korea	605	600	99.3%	104.5%
USA	2,083	2,474	118.8%	117.3%
Operating profit	▲ 1,050	▲ 319	-	-
Hong Kong	▲ 413	▲ 140	-	-
China	▲ 369	▲ 187	-	-
Taiwan	87	78	89.3%	92.6%
Korea	▲ 94	▲ 51	-	-
USA	▲ 260	▲ 17	-	-

* : Amortization of goodwill of USA FY2019/02 1H: 13 million yen, FY2020/02 1H: 12 million yen

- Operating loss reduced in Hong Kong and China due to the close of unprofitable stores in previous fiscal year
- GLOBAL WORK preformed strong in Taiwan, steady growth of company owned EC site “dot st Taiwan”
- Both wholesale and retailing business performed well

Consolidated Balance Sheet

Millions of yen

	End of 2018/8		End of 2019/2		End of 2019/8			
		Ratio		Ratio		Ratio	Compared with the end of 2018/8	Compared with the end of FY2019/2
Current assets	45,059	50.7%	48,050	52.7%	50,472	52.2%	+5,413	+2,422
Cash and deposits	15,702	17.7%	18,726	20.5%	21,649	22.4%	+5,946	+2,923
Inventories	17,814	20.0%	17,592	19.3%	16,865	17.5%	▲949	▲726
Non-current assets	43,793	49.3%	43,213	47.3%	46,142	47.8%	+2,348	+2,929
Property, plant and equipment	13,708	15.4%	13,440	14.7%	15,092	15.6%	+1,384	+1,651
Goodwill	781	0.9%	648	0.7%	555	0.6%	▲226	▲93
Investments and other assets	24,374	27.4%	23,882	26.2%	23,804	24.6%	▲570	▲78
Total assets	88,852	100.0%	91,263	100.0%	96,615	100.0%	+7,762	+5,351
Liabilities	39,201	44.1%	38,303	42.0%	40,558	42.0%	+1,356	+2,254
Interest-bearing debt	2,536	2.9%	2,552	2.8%	2,344	2.4%	▲191	▲208
Net assets	49,650	55.9%	52,959	58.0%	56,056	58.0%	+6,405	+3,097
Treasury shares	▲4,574	▲5.1%	▲4,575	▲5.0%	▲4,371	▲4.5%	+202	+203

*In FY2020/02, Adastria started using Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28). As a result, deferred tax assets that were included in current assets in prior fiscal years are now included in investments and other assets in non-current assets and deferred tax liabilities are included in non-current liabilities. This change has also been applied to the balance sheets for the end of 2018/8 and 2019/2

- Cash and deposits: Net cash is 6.1 billion yen higher than one year earlier
- Inventories: Down 5.3% from one year earlier because of measures for proper inventory levels and fewer stores in Hong Kong and China
- Fixed assets: Property, plant and equipment up 1.3 billion yen from one year earlier
One reason is the addition of utilization rights due to the application of IFRS No. 16 at Asian subsidiaries
- Net assets: Net asset ratio is 58.0%, up 2.1 pct. point from one year earlier

Number of Stores

	End of FY2019	FY2020/02 1H			
	Number of stores	Opened	Changed	Closed	End of 1H
GLOBAL WORK	213	2	0	▲ 2	213
niko and ...	139	5	0	▲ 1	143
LOWRYS FARM	139	0	0	▲ 2	137
studio CLIP	190	3	0	▲ 1	192
LEPSIM	132	1	0	0	133
JEANASIS	73	0	0	0	73
BAYFLOW	49	6	0	0	55
RAGEBLUE	58	0	0	▲ 1	57
Others	269	2	0	▲ 9	262
Adastria non-consolidated total	1,262	19	0	▲ 16	1,265
(Online store included)	(52)	(5)	(0)	(0)	(57)
Domestic subsidiaries total *1	80	6	0	▲ 2	84
(Online store included)	(14)	(2)	(0)	(▲ 1)	(15)
Japan total	1,342	25	0	▲ 18	1,349
(Online store included)	(66)	(7)	(0)	(▲ 1)	(72)
Hong Kong	20	0	0	▲ 2	18
China	10	0	0	▲ 3	7
Taiwan	34	1	0	▲ 1	34
Korea	12	0	0	0	12
USA	9	0	0	0	9
Oversea total	85	1	0	▲ 6	80
(Online store included)	(13)	(0)	(0)	(0)	(13)
Consolidated total	1,427	26	0	▲ 24	1,429
(Online store included)	(79)	(7)	0	(▲ 1)	(85)

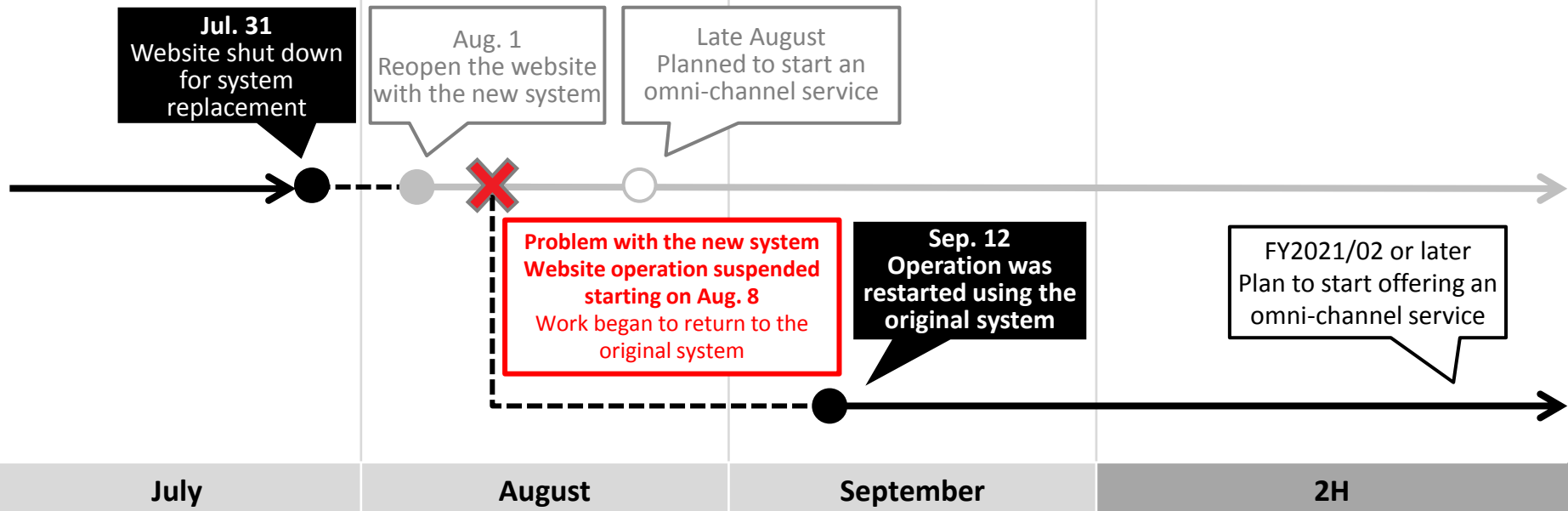
FY2020/02 Plan			
Open	Change	Close	End of FY2020/02
3	0	▲ 5	211
8	0	▲ 2	145
0	0	▲ 5	134
3	0	▲ 6	187
2	0	▲ 4	130
0	0	0	73
7	0	▲ 2	54
0	0	▲ 4	54
12	0	▲ 27	254
35	0	▲ 55	1,242
(5)	(0)	(▲ 7)	(50)
12	0	▲ 4	88
(3)	(0)	(▲ 2)	(15)
47	0	▲ 59	1,330
(8)	0	(▲ 9)	(65)
0	0	▲ 4	16
1	0	▲ 10	1
5	0	▲ 3	36
1	0	▲ 1	12
1	0	0	10
8	0	▲ 18	75
(3)	(0)	(▲ 3)	(13)
55	0	▲ 77	1,405
(11)	0	(▲ 12)	(78)

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

Overview of the Adastria “dot st” E-commerce Site

■ Operation of “dot st” was suspended from Aug. 8 to Sep. 12

- Reason: Replacement of this website’s system with a new one was planned for the end of July in order to add capacity and upgrade services due to the outlook for sales growth
However, there were problems with the switch to the new system
- Response: Operations were returned to the original system due to the decision to prioritize the site’s stability and resumption of services
Returned points and reissued coupons that expired during the suspension
Also held a sale for returning 20% of points to members after operations resumed
- Impact: Start of an omni-channel service has been pushed back to FY2021/02 or later
Currently examining the impact of the suspension on second half earnings performance



FY2020/02 Forecast (Consolidated)

Same as announced
at April 4, 2019

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		

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	1,821	3,138	3,608	2,379	2,379	2,382
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	0	1,395	2,564	0	0	-

*: Dividends per share are adjusted for the 2:1 stock split on March 1, 2016.

*: Goodwill amortization includes an impairment loss recorded as an extraordinary loss

- The basic policy is a 30% consolidated payout ratio before goodwill amortization
- No change in the forecast of a 50 yen annual dividend per share (25 yen interim and year-end dividends) for FY2020/02

III. Business Strategy



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	Reduced discounted sales of merchandise by focusing on proper timing, volumes and pricing
	Use Adastria's exclusive SPA (specialty store retailer of private label apparel) framework to improve product planning skills	Core brands continue to perform well More measures for quick response production during the season
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	Postponed the updating of the Adastria e-commerce system Continuing to take actions for growth in the future
	Rebuild overseas operations	Moving forward with restructuring Asia operations
	Start operations in new business domains	Created a new brand for women around the age of 50
Strategy 3: Build a foundation that can support innovation and growth	Make management of the entire Adastria Group more powerful	Our commitment to sustainable management

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

Core Brands Continue to Perform Well

GLOBAL WORK

- Woman category sales increased due to reinforcement of the hybrid production flow
 - Adjusted the percentage between quiet season production and during season quick-response production to achieve proper timing and volumes



LOWRYS FARM

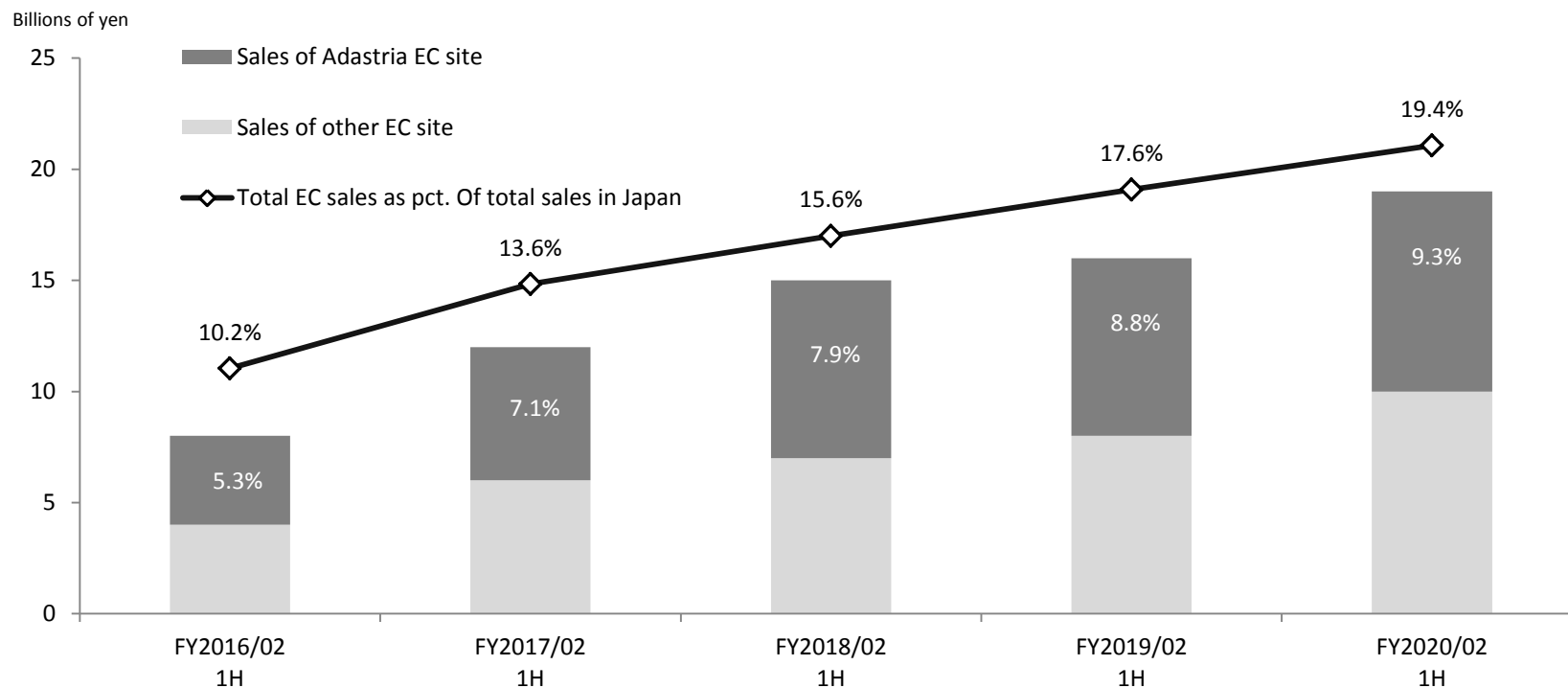
- Rebranding in spring 2019 resulted in strong performance
 - More merchandising targeting women in their 30s
 - Optimized pricing reduced the discounting ratio
 - Same store sales significantly recovered; up over 120% YoY



Online Business

Steady online business growth at both the parent company and subsidiaries in Japan

- FY2020/02 1H domestic e-commerce sales: **20.2** billion yen (+16.0% YoY)
 - Domestic online business ratio: 19.4% (Adastria EC site: approx. 9.3%)
 - Adastria's ".st" EC site has about 9.5 million members (+0.8 million from the end of FY2019/2)
 - Although the system upgrade was postponed, activities will continue to enhance EC sites in order to give customers a better experience



*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., LTD. was renamed BUZZWIT Co., Ltd. in August 2018.

Goals for Operations in ASIA

GLOCAL

GLOBAL

+

LOCAL

Weaknesses in the past in overseas operations

- Branding was difficult because the multi-format business model resulted in store openings primarily for increasing the scale of operations
- Overreliance on brands originating in Japan made overseas operations reliant by concepts and decisions in Japan



The objective of Adastria's business operations in other countries
Use fashion to enrich the lives of customers living in areas where we operate stores

“Who are our customers and where do they live?”

Different cultures → Different seasons and trends → Different customer life styles



Raise merchandise accuracy by selling items that match local needs

- ✓ Reflect differences of seasons and temperatures between Japan and other countries
- ✓ Reflect seasonal trends at different business units
- ✓ Reflect QR/business unit market trends and respond to merchandise shortages

A New Brand for Women Around the Age of Fifty

- The Adastria Group's first brand for women between the ages of 40 and 50
- 70% of Japan's adult population is above the age of 40 *June 2019 Population Estimates, Statistics Bureau of Japan
- Besides "young-casual" category, a key Adastria strength, expand the targeted market sector to cover the "adult generation"

Elura

More mature women encounter changes and difficulties associated with the effects of aging on the body, skin, hair and other aspects of one's appearance. Conventional apparel attempts to conceal these effects or use deception. The Elura brand is instead a source of new ideas for "dealing" with these effects with functions and fashion



A garment styled for glamour, function and comfort

¥8,900+tax

Elura



A sensible combination of style and warmth

¥12,900+tax

Elura



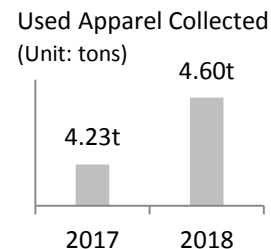
Our Commitment to Sustainable Management

Aiming to be a company that uses fashion to help solve social issues

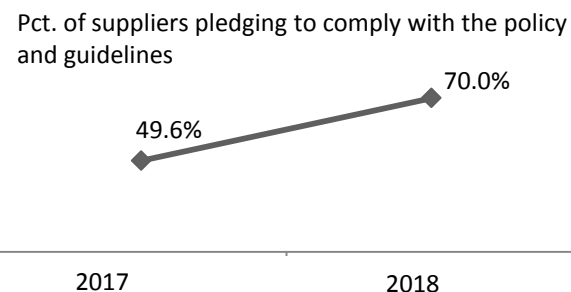
■ ESG Activities

E Activities to reduce our environmental impact in order to help create a sustainable world

- Play Cycle Project
- REBAG PROJECT
- Increasing use of sustainable materials
- Strengthen measures to reduce the volume of inventories discarded



S We have established a Group Procurement Policy and Group Procurement Guidelines for respect of workers' human rights and a lower environmental impact. We ask suppliers to sign pledges to comply with these principles and we monitor these companies by sending questionnaires and visiting their business sites



G We are dedicated to maintaining a highly effective corporate governance framework for the purposes of adapting with flexibility to shifts in customers' needs, the business climate and technology as well as to reach decisions quickly in order to maximize customer satisfaction

Management Diversity

Directors	9	Corporate Auditors	4
Outside director ratio (four outside directors)	44.4%	Female director/corporate auditor (three females)	23.1%

* : As of Sep 2019

A D A S T R I A

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Play fashion!