

Summary of Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending February 29, 2020
(Nine Months Ended November 30, 2019)

[Japanese GAAP]

December 27, 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: January 14, 2020
 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 27, 2019 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 29, 2020
(March 1, 2019 – November 30, 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	%
Nine months ended Nov. 30, 2019	164,280	1.2	11,970	110.0	11,871	103.5	6,908	124.2
Nine months ended Nov. 30, 2018	162,345	(0.6)	5,700	(15.4)	5,832	(17.7)	3,081	(52.2)

Note: Comprehensive income
 Nine months ended Nov. 30, 2019: 6,951 million yen (up 144.7%)
 Nine months ended Nov. 30, 2018: 2,841 million yen (down 18.3%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Nov. 30, 2019	146.67	-
Nine months ended Nov. 30, 2018	65.48	-

Reference: EBITDA
 Nine months ended Nov. 30, 2019: 17,133 million yen (up 45.3%)
 Nine months ended Nov. 30, 2018: 11,787 million yen
 EPS before goodwill amortization
 Nine months ended Nov. 30, 2019: 149.38 yen (up 63.1%)
 Nine months ended Nov. 30, 2018: 91.61 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 Nov. 30, 2019	99,913	57,347	57.4
As of Feb. 28, 2019	91,263	52,959	58.0

Reference: Shareholders' equity As of Nov. 30, 2019: 57,347 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	223,000	0.2	12,000	66.9	12,000	63.4	6,500	67.1	137.94

Note: Revision to the most recently announced consolidated forecast: Yes

Reference: EBITDA
 Fiscal year ending Feb. 29, 2020 (forecast): 18,870 million yen (up 23.2%)
 EPS before goodwill amortization
 Fiscal year ending Feb. 29, 2020 (forecast): 141.55 yen (up 28.2%)

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

Newly added: 1 ADASTRIA (SHANGHAI) CO., LTD. (directly translated from Chinese) 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, (3) Notes to Quarterly Consolidated Financial Statements, Changes in Accounting Policies” on page 8 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 Nov. 30, 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 Nov. 30, 2019:	1,679,257 shares	As of Feb. 28, 2019:	1,736,973 shares
----------------------	------------------	----------------------	------------------

3) Average number of shares outstanding during the period

Nine months ended Nov. 30, 2019:	47,102,625 shares	Nine months ended Nov. 30, 2018:	47,057,064 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
Changes in Accounting Policies	8
Additional Information	8
3. Supplementary Information	9
(1) Sales for Brands and Regions	9
(2) Sales for Merchandise Categories	9
(3) Number of Stores	10

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

Consolidated results (Million yen)

	First nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)	First nine months of FY2/20 (Mar. 1, 2019 – Nov. 30, 2019)	YoY change (Amount)	YoY change (%)
Net sales	162,345	164,280	1,935	1.2
Operating profit	5,700	11,970	6,269	110.0
Ordinary profit	5,832	11,871	6,038	103.5
Net income attributable to owners of the parent	3,081	6,908	3,827	124.2

EBITDA	11,787	17,133	5,345	45.3
EPS before goodwill amortization (Yen)	91.61	149.38	57.77	63.1

Consolidated net sales in the first nine months (March 1 – November 30, 2019) increased 1.2% year-on-year to 164,280 million yen, operating profit increased 110% to 11,970 million yen, ordinary profit increased 103.5% to 11,871 million yen, and net income attributable to owners of the parent increased 124.2% to 6,908 million yen.

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased 45.3% to 17,133 million yen and earnings per share (EPS) before goodwill amortization rose 63.1% to 149.38 yen. (*)

Sales in Japan were 2.5% higher than one year earlier, despite the negative effects of unfavorable weather. 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 steady sales of *niko and ...*, *BAYFLOW* and other brands.

Operation of our “.st” e-commerce site had been suspended since August 8 due to problems with the switch to the new system. However, operation was restarted in September 12, 2019.

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 44 stores (including 5 overseas) and closed 49 stores (including 16 overseas), resulting in a total network of 1,422 stores (including 74 overseas) at the end of the third 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 1.8 percentage points from one year earlier to 57.1%.

The ratio of selling, general and administrative (SG&A) expenses to sales decreased 2.0 percentage points to 49.8%, resulting in a 3.8 percentage point increase in the operating margin to 7.3%. SG&A expenses were 2,213 million yen less than one year earlier. The main reasons were a decrease in advertising expenses as e-commerce promotion expenses were held down and lower rent as the number of stores decreased year on year. 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 Aadstria) also reduced SG&A expenses.

There were impairment losses of 72 million yen on store assets and 1,511 million yen on software which there is little potential for utilization due to changes in the system development plan. These losses are recorded as extraordinary losses.

(*) 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

Total assets increased 8,649 million yen from as of February 28, 2019 to 99,913 million yen as of November 30, 2019. Cash and deposits decreased 3,028 million yen but there were increases of 7,075 million yen in notes and accounts receivable-trade, 3,950 million yen in inventories and 1,881 million yen in other, net under property, plant and equipment, partly because of right-of-use assets resulting from the application of IFRS 16.

Liabilities increased 4,261 million yen to 42,565 million yen. Short-term loans payable decreased 2,552 million yen but there were increases of 2,278 million yen in notes and accounts payable-trade, 3,511 million yen in accounts payable-other and 1,177 million yen in other under current liabilities, including lease liabilities resulting from the application of IFRS 16.

Net assets increased 4,387 million yen to 57,347 million yen. This was mainly due to an increase in retained earnings of 4,155 million yen.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

The Company has revised the full year forecasts for the fiscal year ending February 29, 2020 that were announced on April 4, 2019, based on the results of operations in the first nine months of the current fiscal year.

For more information about this revision, please see the December 27, 2019 press release concerning this revision (Japanese version only) or presentation material for the third quarter of the fiscal year ending February 29, 2020 posted on the corporate website.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	FY2/19 (As of Feb. 28, 2019)	Third quarter of FY2/20 (As of Nov. 30, 2019)
Assets		
Current assets		
Cash and deposits	18,726	15,698
Notes and accounts receivable-trade	9,780	16,856
Inventories	17,592	21,542
Other	2,016	1,577
Allowance for doubtful accounts	(65)	(136)
Total current assets	48,050	55,538
Non-current assets		
Property, plant and equipment		
Store interior equipment, net	6,226	5,748
Other, net	7,214	9,095
Total property, plant and equipment	13,440	14,844
Intangible assets		
Goodwill	648	515
Other	5,241	5,433
Total intangible assets	5,889	5,949
Investments and other assets		
Investment securities	828	244
Lease and guarantee deposits	16,947	16,552
Other	6,401	7,079
Allowance for doubtful accounts	(294)	(294)
Total investments and other assets	23,882	23,581
Total non-current assets	43,213	44,375
Total assets	91,263	99,913
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,267	11,545
Electronically recorded obligations-operating	9,635	8,788
Short-term loans payable	2,552	-
Accounts payable-other	9,703	13,214
Income taxes payable	1,376	2,613
Provision for bonuses	2,506	1,308
Provision for point card certificates	1,084	1,567
Other provision	361	263
Other	340	1,518
Total current liabilities	36,829	40,820
Non-current liabilities		
Provision	314	296
Other	1,160	1,448
Total non-current liabilities	1,474	1,745
Total liabilities	38,303	42,565

(Million yen)

	FY2/19 (As of Feb. 28, 2019)	Third quarter of FY2/20 (As of Nov. 30, 2019)
Net assets		
Shareholders' equity		
Capital stock	2,660	2,660
Capital surplus	7,227	7,213
Retained earnings	47,469	51,625
Treasury shares	(4,575)	(4,371)
Total shareholders' equity	52,781	57,126
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(7)	1
Deferred gains or losses on hedges	(8)	18
Foreign currency translation adjustment	193	200
Total accumulated other comprehensive income	177	220
Total net assets	52,959	57,347
Total liabilities and net assets	91,263	99,913

(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 FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)	First nine months of FY2/20 (Mar. 1, 2019 – Nov. 30, 2019)
Net sales	162,345	164,280
Cost of sales	72,596	70,475
Gross profit	89,749	93,805
Selling, general and administrative expenses	84,048	81,834
Operating profit	5,700	11,970
Non-operating income		
Dividend income	12	13
House rent income	65	-
Gain on valuation of derivatives	-	29
Other	295	293
Total non-operating income	373	336
Non-operating expenses		
Interest expenses	34	89
Foreign exchange losses	55	308
Loss on valuation of derivatives	71	-
Cost of lease revenue	59	-
Other	20	38
Total non-operating expenses	241	435
Ordinary profit	5,832	11,871
Extraordinary income		
Gain on sales of investment securities	201	-
Total extraordinary income	201	-
Extraordinary losses		
Impairment loss	376	1,584
Loss on disaster	-	23
Loss on sales of investment securities	-	75
Total extraordinary losses	376	1,684
Net income before income taxes	5,657	10,187
Income taxes-current	3,213	3,933
Income taxes-deferred	(637)	(655)
Total income taxes	2,576	3,278
Net income	3,081	6,908
Net income attributable to owners of the parent	3,081	6,908

Quarterly Consolidated Statement of Comprehensive Income

(For the Nine-month Period)

(Million yen)

	First nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)	First nine months of FY2/20 (Mar. 1, 2019 – Nov. 30, 2019)
Net income	3,081	6,908
Other comprehensive income		
Valuation difference on available-for-sale securities	(163)	9
Deferred gains or losses on hedges	76	27
Foreign currency translation adjustment	(153)	6
Total other comprehensive income	(239)	43
Comprehensive income	2,841	6,951
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	2,841	6,951
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.

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 nine months 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 nine months of FY2/20		YoY change (%)
	Sales (million yen)	Composition (%)	
GLOBAL WORK	30,599	18.6	3.2
niko and ...	23,703	14.4	3.4
LOWRYS FARM	17,642	10.7	9.5
STUDIO CLIP	16,789	10.2	(4.8)
LEPSIM	10,755	6.6	(2.8)
JEANASIS	8,778	5.4	(1.9)
BAYFLOW	7,258	4.4	15.1
RAGEBLUE	5,491	3.4	(1.0)
Others (Note 3)	23,053	14.0	6.2
Total (Adastria)	144,073	87.7	3.0
BUZZWIT Co., Ltd. (Note 3)	3,653	2.2	(25.1)
ELEMENT RULE Co., Ltd.	7,066	4.3	13.5
Other consolidated subsidiaries	31	0.0	1,281.7
Total (Japan)	154,825	94.2	2.5
Hong Kong	2,582	1.6	(34.9)
China	336	0.2	(70.3)
Taiwan	1,796	1.1	3.3
South Korea	871	0.5	(3.9)
USA	3,869	2.4	7.2
Total (Overseas)	9,455	5.8	(16.8)
Total (Group)	164,280	100.0	1.2

- 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 nine months of FY2/20		YoY change (%)
	Sales (million yen)	Composition (%)	
Men's apparel (bottoms, tops)	23,407	14.2	6.0
Lady's apparel (bottoms, tops)	109,362	66.6	1.1
Others	31,511	19.2	(1.6)
Total	164,280	100.0	1.2

- 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 nine months of FY2/20				As of Nov. 30, 2019
		Opened	Changed	Closed	Increase /decrease	
GLOBAL WORK	213	3	-	(3)	-	213
niko and ...	139	8	-	(2)	6	145
LOWRYS FARM	139	-	-	(2)	(2)	137
STUDIO CLIP	190	3	-	(3)	-	190
LEPSIM	132	2	-	(2)	-	132
JEANASIS	73	-	-	-	-	73
BAYFLOW	49	7	-	(2)	5	54
RAGEBLUE	58	-	-	(3)	(3)	55
Others	269	6	-	(13)	(7)	262
Total (Adastria)	1,262	29	-	(30)	(1)	1,261
BUZZWIT Co., Ltd.	5	3	-	-	3	8
ELEMENT RULE Co., Ltd.	75	6	-	(3)	3	78
Other consolidated subsidiaries	-	1	-	-	1	1
Total (Japan)	1,342	39	-	(33)	6	1,348
Hong Kong	20	-	-	(4)	(4)	16
China	10	-	-	(9)	(9)	1
Taiwan	34	4	-	(3)	1	35
South Korea	12	1	-	-	1	13
USA	9	-	-	-	-	9
Total (Overseas)	85	5	-	(16)	(11)	74
Total (Group)	1,427	44	-	(49)	(5)	1,422

- 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.

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.