

April 22, 2021

Adastria Co., Ltd.

FY2021/02 Full year results frequently asked questions

The following is a summary of the major questions received from the media, analysts, and institutional investors after the announcement of our financial results for the fiscal year ended February 28, 2021 on Monday, April 5.

■About Future Growth Strategies

Q. In terms of growth strategies, what has been able to produce results even under the pandemic and what is the future direction?

A. Non-apparel areas were relatively strong, including the LAKOLE brand, which is expanding its product lineup of general merchandise to meet the growing demand for stay-home and lifestyle changes under COVID-19 conditions, and the studio CLIP brand, which also offers household and kitchen goods. Going forward, we will continue to pursue a strategy of expanding the scope of our business.

In addition, while customers refrained from visiting brick-and-mortar stores due to self-restraint caused by the declaration of a state of emergency and other factors, we worked to strengthen our own EC, and as a result, domestic EC sales grew by more than double digits compared to the previous fiscal year. We will continue to invest in the growth of EC.

Furthermore, in order to continue our business growth on a global scale, we are promoting localization of production management and strengthening local EC and logistics.

■About FY2022/02 Earnings forecast

Q. What are the assumptions behind the earnings forecast and the details of the investment plan?

A. As the impact of Covid-19 infection was the greatest last year, we have prepared our budget of the FY2022/02 based on the results of the FY2020/02. We assume that the impact of the Covid-19 will continue especially in the first half with a gradual recovery in the second half by the spread of the vaccine. In terms of investment plans, the total investment for the group consolidated will be 13 billion yen, with the largest amount of 6.4 billion yen mainly for business expansion of growth brands and to get new brands on track. In addition, there will be 4 billion yen in system investments to expand the capacity of our own EC (.st) and improve the efficiency of our supply chain.

■About SG&A expenses

Q. What is the detail of SG&A expenses in the forecast for the FY2022/02?

A. The major increases from the previous fiscal year are store rents and labor costs. Rents decreased in the FY2021/02 due to store closures caused by COVID-19 and reductions and exemptions, but since the conditions are still undecided at this point, most of them have been factored into SG&A expenses based on the assumption that they will return to pre-COVID levels. In terms of labor costs, we assume that business hours will return to the previous level, although we are still shortening business hours in some areas. In addition, we plan to make strategic investments for growth, such as advertising expenses and new business development, which we have been holding back due to the disaster.

■About web business

Q. What is your goal for the EC ratio and what is the outlook for the business in the future?

A. We have not disclosed the ratio of e-commerce sales but we will continue to focus on e-commerce growth. Due to the impact of the temporary closure of stores due to the declaration of a state of emergency in April and May 2020, our EC ratio has increased significantly. Even though it is possible that the rate of growth will temporarily slow down when brick-and-mortar

stores recover, we believe that the ratio of e-commerce will gradually increase, partly due to the change in consumer behavior caused by the Covid-19.

■**About overseas**

Q. What is your impression of the business in China and what is your strategy for the future?

A. With the opening of our second store in Shanghai last year, we now have three stores in China, including a web store, and sales have been strong. The product mix of the second store has changed from the first store, and by promoting the Japanese lifestyle brand from a new angle, we are steadily expanding brand recognition. In the FY2022/02, we plan to accelerate our growth by opening more stores and forming alliances with leading local brands, while developing a system that allows us to manage production, distribution, and sales locally.