

Summary of Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending February 29, 2020
(Three Months Ended May 31, 2019)

[Japanese GAAP]

June 28, 2019

Company name: Adastria Co., Ltd. Listing: TSE 1st section
 Stock code: 2685 URL: <https://www.adastria.co.jp>
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 Scheduled date of filing of Quarterly Report: July 12, 2019
 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 June 28, 2019 at 15:00 (GMT +9).

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

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending February 29, 2020
(March 1, 2019 – May 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	%
Three months ended May 31, 2019	56,290	9.5	5,221	308.4	5,119	276.9	3,267	-
Three months ended May 31, 2018	51,392	(4.9)	1,278	(66.6)	1,358	(65.1)	239	(95.4)

Note: Comprehensive income Three months ended May 31, 2019: 3,372 million yen (-%)
 Three months ended May 31, 2018: 46 million yen (down 98.0%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended May 31, 2019	69.41	-
Three months ended May 31, 2018	5.08	-

Reference: EBITDA Three months ended May 31, 2019: 6,863 million yen (up 102.6%)
 Three months ended May 31, 2018: 3,387 million yen
 EPS before goodwill amortization Three months ended May 31, 2019: 70.43 yen (up 309.3%)
 Three months ended May 31, 2018: 17.21 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 May 31, 2019	96,555	54,919	56.9
As of Feb. 28, 2019	91,263	52,959	58.0

Reference: Shareholders' equity As of May 31, 2019: 54,919 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	-	-	-	-	-
Fiscal year ending Feb. 29, 2020 (forecast)	-	25.00	-	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, (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 May 31, 2019:	48,800,000 shares	As of Feb. 28, 2019:	48,800,000 shares
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2) Number of treasury shares at the end of the period

As of May 31, 2019:	1,691,422 shares	As of Feb. 28, 2019:	1,736,973 shares
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3) Average number of shares outstanding during the period

Three months ended May 31, 2019:	47,070,278 shares	Three months ended May 31, 2018:	47,043,916 shares
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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.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

Consolidated results

(Million yen)

	First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)	First three months of FY2/20 (Mar. 1, 2019– May 31, 2019)	YoY change (Amount)	YoY change (%)
Net sales	51,392	56,290	4,898	9.5
Operating profit	1,278	5,221	3,943	308.4
Ordinary profit	1,358	5,119	3,761	276.9
Net income attributable to owners of the parent	239	3,267	3,027	1,266.2

EBITDA	3,387	6,863	3,475	102.6
EPS before goodwill amortization (Yen)	17.21	70.43	53.22	309.3

Consolidated net sales in the first quarter (March 1 - May 31, 2019) increased 9.5% year-on-year to 56,290 million yen, operating profit increased 308.4% to 5,221 million yen, ordinary profit increased 276.9% to 5,119 million yen, and net income attributable to owners of the parent increased 1,266.2% to 3,267 million yen.

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased 102.6% to 6,863 million yen and earnings per share (EPS) before goodwill amortization rose 309.3% to 70.43 yen. (*)

Sales in Japan were 11.7% than one year earlier. The main reasons were a recovery in the sales of *GLOBAL WORK*, *LOWRYS FARM* and other core brands that had difficulties in the previous fiscal year and generally strong sales of *niko and ...* and other brands. Sales of core brands are recovering primarily because of more clearly defining targeted customer segments, which included rebranding measures, and a reexamination of the merchandise lineups of these brands.

In other countries, sales were steady in the United States in part because of the consistent performance of the wholesale business. In Hong Kong and China, sales were down following the closing of unprofitable stores in the previous fiscal year.

We opened 20 stores (including one overseas) and closed seven stores (including three overseas), resulting in a total network of 1,440 stores (including 83 overseas) at the end of May 2019.

Profitability continued to improve in the first quarter mainly due to the success of many activities aimed at supplying merchandise that customers want at the right times, prices and volumes. In addition, there was an improvement in the discounting ratio. As a result, the gross profit margin increased 1.0 percentage point from one year earlier to 58.4%.

The ratio of selling, general and administrative (SG&A) expenses to sales decreased 5.9 percentage points to 49.1%, resulting in a 6.8 percentage point increase in the operating margin to 9.3%. SG&A expenses were 582 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 32 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

Total assets increased 5,291 million yen from as of February 28, 2019 to 96,555 million yen as of May 31, 2019. Cash and deposits decreased 1,404 million yen but there were increases of 3,818 million yen in notes and accounts receivable-trade and 2,320 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 3,331 million yen to 41,635 million yen. The provision for bonuses decreased 1,027 million yen but there were increases of 2,333 million yen in accounts payable-other and 1,566 million yen in other under current liabilities, including lease liabilities resulting from the application of IFRS 16.

Net assets increased 1,959 million yen to 54,919 million yen. This was mainly due to an increase in retained earnings of 1,704 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)	First quarter of FY2/20 (As of May 31, 2019)
Assets		
Current assets		
Cash and deposits	18,726	17,321
Notes and accounts receivable-trade	9,780	13,598
Inventories	17,592	17,901
Other	2,016	1,736
Allowance for doubtful accounts	(65)	(92)
Total current assets	48,050	50,466
Non-current assets		
Property, plant and equipment		
Store interior equipment, net	6,226	6,247
Other, net	7,214	9,534
Total property, plant and equipment	13,440	15,781
Intangible assets		
Goodwill	648	599
Other	5,241	5,523
Total intangible assets	5,889	6,123
Investments and other assets		
Investment securities	828	747
Lease and guarantee deposits	16,947	16,824
Other	6,401	6,903
Allowance for doubtful accounts	(294)	(292)
Total investments and other assets	23,882	24,182
Total non-current assets	43,213	46,088
Total assets	91,263	96,555
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,267	8,822
Electronically recorded obligations-operating	9,635	8,753
Short-term loans payable	2,552	2,333
Accounts payable-other	9,703	12,036
Income taxes payable	1,376	2,485
Provision for bonuses	2,506	1,478
Provision for point card certificates	1,084	1,137
Other provision	361	331
Other	340	1,907
Total current liabilities	36,829	39,286
Non-current liabilities		
Provision	314	134
Other	1,160	2,215
Total non-current liabilities	1,474	2,349
Total liabilities	38,303	41,635

(Million yen)

	FY2/19 (As of Feb. 28, 2019)	First quarter of FY2/20 (As of May 31, 2019)
Net assets		
Shareholders' equity		
Capital stock	2,660	2,660
Capital surplus	7,227	7,227
Retained earnings	47,469	49,174
Treasury shares	(4,575)	(4,426)
Total shareholders' equity	52,781	54,636
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(7)	(56)
Deferred gains or losses on hedges	(8)	(51)
Foreign currency translation adjustment	193	391
Total accumulated other comprehensive income	177	283
Total net assets	52,959	54,919
Total liabilities and net assets	91,263	96,555

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

(Million yen)

	First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)	First three months of FY2/20 (Mar. 1, 2019 – May 31, 2019)
Net sales	51,392	56,290
Cost of sales	21,870	23,408
Gross profit	29,521	32,882
Selling, general and administrative expenses	28,243	27,660
Operating profit	1,278	5,221
Non-operating income		
Dividend income	2	3
Foreign exchange gains	60	-
House rent income	25	-
Gain on valuation of derivatives	-	51
Other	89	86
Total non-operating income	176	141
Non-operating expenses		
Interest expenses	8	32
Foreign exchange losses	-	203
Loss on valuation of derivatives	59	-
Cost of lease revenue	23	-
Other	5	6
Total non-operating expenses	96	243
Ordinary profit	1,358	5,119
Extraordinary losses		
Impairment loss	240	32
Loss on sales of investment securities	-	4
Total extraordinary losses	240	36
Net income before income taxes	1,117	5,083
Income taxes-current	1,138	2,253
Income taxes-deferred	(259)	(437)
Total income taxes	878	1,816
Net income	239	3,267
Net income attributable to owners of the parent	239	3,267

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

(Million yen)

	First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)	First three months of FY2/20 (Mar. 1, 2019 – May 31, 2019)
Net income	239	3,267
Other comprehensive income		
Valuation difference on available-for-sale securities	(69)	(49)
Deferred gains or losses on hedges	80	(42)
Foreign currency translation adjustment	(204)	197
Total other comprehensive income	(193)	105
Comprehensive income	46	3,372
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	46	3,372
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 quarter 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.

Subsequent Events

Establishment of subsidiary

The Adastria Board of Directors approved a resolution on June 19, 2019 to establish a subsidiary as follows.

1. Reason for establishment

In prior years, the COLLECT POINT multi-brand shop business was the primary component of operations in China. To improve the ability to grow along with the Chinese market and meet customers' changing needs, the decision was made to increase emphasis on operations that focus on individual brands. In accordance with this strategy, we plan to open a global flagship store for *niko and ...*, which is one of our core brands, in Shanghai late in 2019.

Adastria is establishing this subsidiary for the purposes of moving rapidly for the successful implementation of the new strategy and strengthening operations in the growing markets of Asia.

2. Outline of the subsidiary

- | | |
|--------------------------------|---|
| (1) Company name | Adastria Shanghai Co., Ltd. (tentative name) |
| (2) Location | No. 775, Huaihai Middle Road, Huangpu District, Shanghai |
| (3) Representative | Kohei Ogawa |
| (4) Business | Planning, production and sale of apparel and other merchandise; food and beverage services |
| (5) Capital | 1,000 million yen |
| (6) Establishment | Between July and September 2019 following the receipt of regulatory approval |
| (7) Relationship with Adastria | 1) Capital: Wholly owned by Adastria
2) Personnel: Two Adastria directors and three executives are to serve concurrently as directors of the new subsidiary
3) Business: Currently there is no applicable information |

* Some of the information in this outline may be revised during the regulatory approval process.

3. Supplementary Information

(1) Sales for Brands and Regions

Brand / region	First three months of FY2/20		YoY change (%)
	Sales (million yen)	Composition (%)	
GLOBAL WORK	10,634	18.9	14.0
niko and ...	7,850	13.9	6.2
LOWRYS FARM	6,146	10.9	15.4
STUDIO CLIP	5,635	10.0	4.9
LEPSIM	3,708	6.6	7.1
JEANASIS	2,959	5.3	6.3
BAYFLOW	2,411	4.3	25.5
RAGEBLUE	1,863	3.3	1.3
Others (Note 3)	8,298	14.7	27.5
Total (Adastria)	49,510	87.9	12.7
BUZZWIT Co., Ltd. (Note 3)	1,187	2.1	(42.6)
ELEMENT RULE Co., Ltd.	2,471	4.4	55.2
Other consolidated subsidiaries	1	0.0	139.1
Total (Japan)	53,170	94.4	11.7
Hong Kong	884	1.6	(40.7)
China	149	0.3	(65.0)
Taiwan	623	1.1	(0.1)
South Korea	274	0.5	0.6
USA	1,186	2.1	21.1
Total (Overseas)	3,119	5.6	(17.9)
Total (Group)	56,290	100.0	9.5

- 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 the first half of FY2/19, three business units including the *PAGEBOY* business unit of BUZZWIT Co., Ltd. (formerly ALICIA CO., LTD.) were transferred to Adastria. The YoY change on BUZZWIT are calculated based on sales for the first three months of FY2/19 that include the three business units.

(2) Sales for Merchandise Categories

Category	First three months of FY2/20		YoY change (%)
	Sales (million yen)	Composition (%)	
Men's apparel (bottoms, tops)	7,921	14.1	10.0
Lady's apparel (bottoms, tops)	38,007	67.5	11.0
Others	10,361	18.4	4.3
Total	56,290	100.0	9.5

- 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 three months of FY2/20				As of May 31, 2019
		Opened	Changed	Closed	Increase /decrease	
GLOBAL WORK	213	1	-	-	1	214
niko and ...	139	2	-	-	2	141
LOWRYS FARM	139	-	-	-	-	139
STUDIO CLIP	190	2	-	(1)	1	191
LEPSIM	132	1	-	-	1	133
JEANASIS	73	-	-	-	-	73
BAYFLOW	49	5	-	-	5	54
RAGEBLUE	58	-	-	-	-	58
Others	269	2	-	(2)	-	269
Total (Adastia)	1,262	13	-	(3)	10	1,272
BUZZWIT Co., Ltd.	5	1	-	-	1	6
ELEMENT RULE Co., Ltd.	75	4	-	(1)	3	78
Other consolidated subsidiaries	-	1	-	-	1	1
Total (Japan)	1,342	19	-	(4)	15	1,357
Hong Kong	20	-	-	(2)	(2)	18
China	10	-	-	-	-	10
Taiwan	34	1	-	(1)	-	34
South Korea	12	-	-	-	-	12
USA	9	-	-	-	-	9
Total (Overseas)	85	1	-	(3)	(2)	83
Total (Group)	1,427	20	-	(7)	13	1,440

- 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.