

FY2020/02

Financial Results & Business Strategy

April 3, 2020

A D A S T R I A
— *Play fashion!*

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1. Overview



Play fashion!

Our Mission / Vision / Values

Mission

Play fashion!

Fashion that inspires you.

Fashion that creates a vibrant community.

Fashion for living your best life.

Vision

Joyful options galore!

Values

We always act with our customers in mind.

Taking on new challenges enables us to grow and evolve.

We value diversity and progressing as a team.

Contributing to society by helping others.

Making everyday life an adventure.

For The Growth to Continue

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**

2. FY2020/02 Financial Results



Summary of FY2020/02

■ Earnings increased but no change in sales

- There was a recovery in the performance of GLOBAL WORK, LOWRYS FARM and other core brands that had difficulties in FY2019/02 and all other brands also performed well.
- Sales were about the same as in FY2019/02 as higher same-store sales in Japan offset the negative effects of a smaller number of physical stores, the result of a scrap and build program, and the temporary suspension of the Adastria “.st” e-commerce website.
- Big increase in earnings due to a higher gross profit margin, the result of reducing the use of price discounts and of more appealing merchandise, and a lower SG&A expense ratio.

■ Operating and ordinary profit exceeded the forecast

- Earnings benefited from a higher than planned gross profit margin, the result of maintaining a suitable level of inventories throughout the year due to the consistent supply of merchandise with proper timing, pricing and volumes. There was also progress with holding down SG&A expenses. As a result, operating and ordinary profit were both higher than the forecast.

■ Started formulating a growth strategy for 2025 and beyond

- The current growth strategy has increased profitability and improved the value chain.
- Work has started on the next growth strategy that looks ahead to 2025 and beyond.

Consolidated Income Statement

Millions of yen

	FY2019/02		FY2020/02		
	Results		Results		
		Ratio		Ratio	YoY
Net sales	222,664	100.0%	222,376	100.0%	99.9%
Adastria(Non-consolidated)	195,427	87.8%	197,451	88.8%	101.0%
Domestic subsidiaries *1	15,091	6.8%	15,226	6.8%	100.9%
Overseas subsidiaries *2	15,308	6.9%	12,743	5.7%	83.2%
Gross profit	120,021	53.9%	123,383	55.5%	102.8%
SG&A expenses	112,831	50.7%	110,497	49.7%	97.9%
Advertising & promotion	8,176	3.7%	8,104	3.6%	99.1%
Personnel	39,200	17.6%	39,131	17.6%	99.8%
Rent & depreciation	44,396	19.9%	42,090	18.9%	94.8%
Amortization of goodwill	1,306	0.6%	167	0.1%	12.8%
Others	19,751	8.9%	21,003	9.4%	106.3%
Operating profit	7,190	3.2%	12,885	5.8%	179.2%
Adastria(non-consolidated)	7,442	-	12,010	-	161.4%
Domestic subsidiaries *1	▲ 188	-	612	-	-
Overseas subsidiaries *2	▲ 2,428	-	▲ 902	-	-
Adastria Logistics	743	-	723	-	97.4%
Ordinary profit	7,345	3.3%	12,843	5.8%	174.8%
Net income	3,890	1.7%	6,363	2.9%	163.6%

EBITDA	15,317	6.9%	20,357	9.2%	132.9%
Depreciation and amortization	6,820	3.1%	7,304	3.3%	107.1%
Amortization of goodwill	1,306	0.6%	167	0.1%	12.8%

Capital expenditure	12,201		11,170		
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*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: 222.3 billion yen (-0.1% YoY)

- Non-consolidated: Sales of some brands such as GLOBAL WORK, LOWRYS FARM, niko and ..., BAYFLOW, and PAGEBOY were strong.
- Domestic subsidiaries: Sales of BUZZWIT and ELEMENT RULE remained strong.
- Overseas subsidiaries: Sales declined in Hong Kong and China due to the close of unprofitable stores in FY2019/02. Sales rose in Taiwan and the U.S.

■ Gross profit margin: 55.5% (+1.6p YoY)

- The discount ratio improved by curbing discounted sales of merchandise and cost reduction progressed from the second half of the fiscal year.

■ SG&A expense ratio: 49.7% (-1.0p YoY)

- Advertising & promotion: 3.6% (-0.1p YoY) Promotion expenses decreased overall
- Rent & depreciation: 18.9% (-1.0p YoY) Lower rent as the number of stores decreased YoY
- Goodwill amortization: 0.1% (-0.5p YoY) TRINITY ARTS goodwill amortization ended in the previous first half
- Other: 9.4% (+0.5p YoY) Credit card fees and expenses associated with IT investments increased

■ Operating profit: 12.8 billion yen (+79.2% YoY)

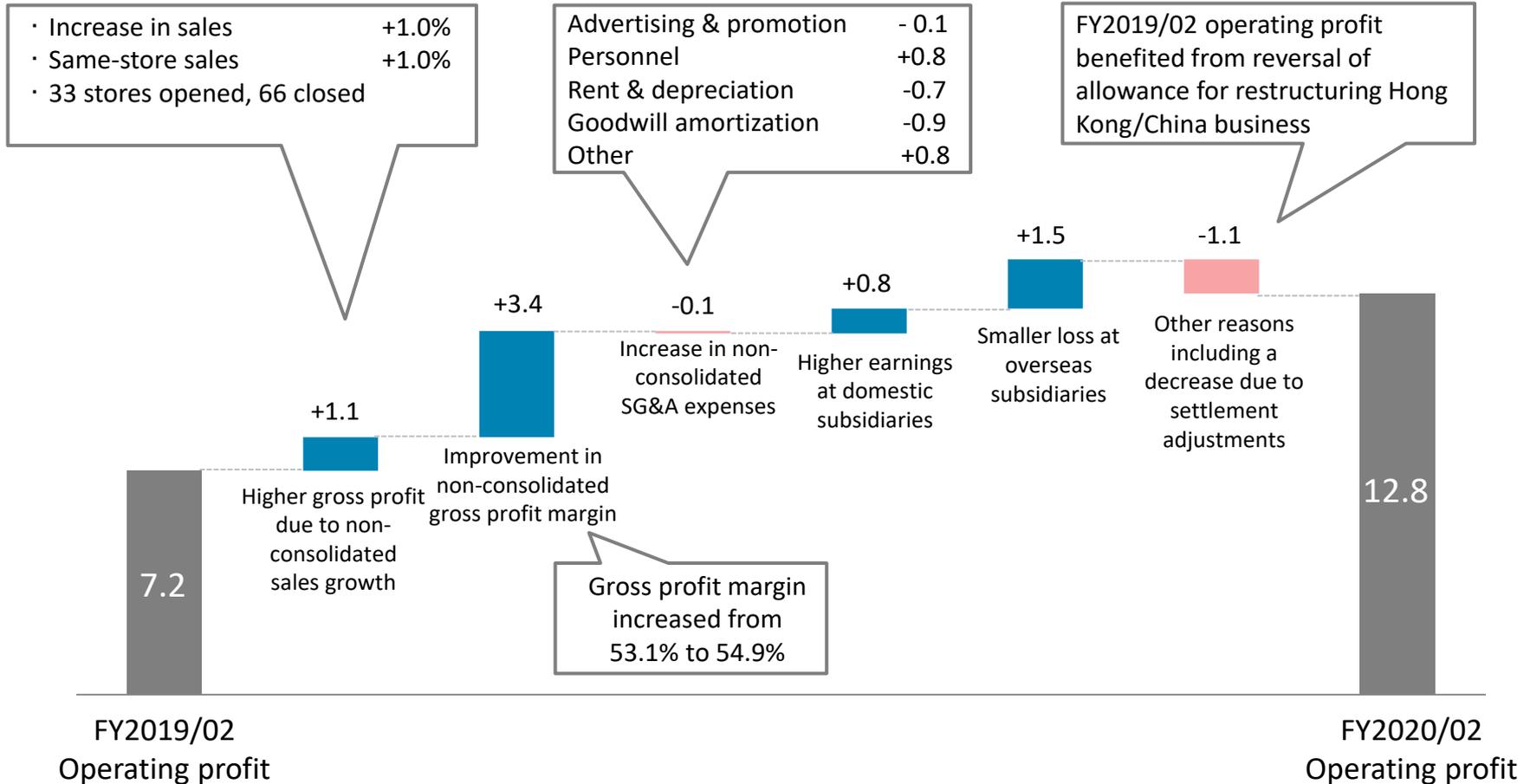
- Operating margin: 5.8% (+2.6p YoY), EBITDA margin: 9.2% (+2.3p YoY)

■ Net income: 6.3 billion yen (+63.6% YoY)

- Impairment losses of 1.5 billion yen on software

FY2020/02 Analysis of Change in Operating Profit

Billions of yen



Parent Company (non-consolidated) Income Statement

Millions of yen

	FY2019/02	FY2020/02	
	Results	Results	
			YoY
Net sales	195,427	197,451	101.0%
(Same stores YoY)	99.6%	101.0%	
GLOBAL WORK	40,871	41,710	102.1%
niko and...	30,956	32,017	103.4%
LOWRYS FARM	22,491	23,691	105.3%
studio CLIP	23,641	22,444	94.9%
LEPSIM	14,806	14,335	96.8%
Gross profit	103,865	108,354	104.3%
Gross margin	53.1%	54.9%	+1.7p
SG&A expenses	96,423	96,343	99.9%
SG&A ratio	49.3%	48.8%	▲ 0.5p
Operating profit	7,442	12,010	161.4%
Operating margin	3.8%	6.1%	+2.3p

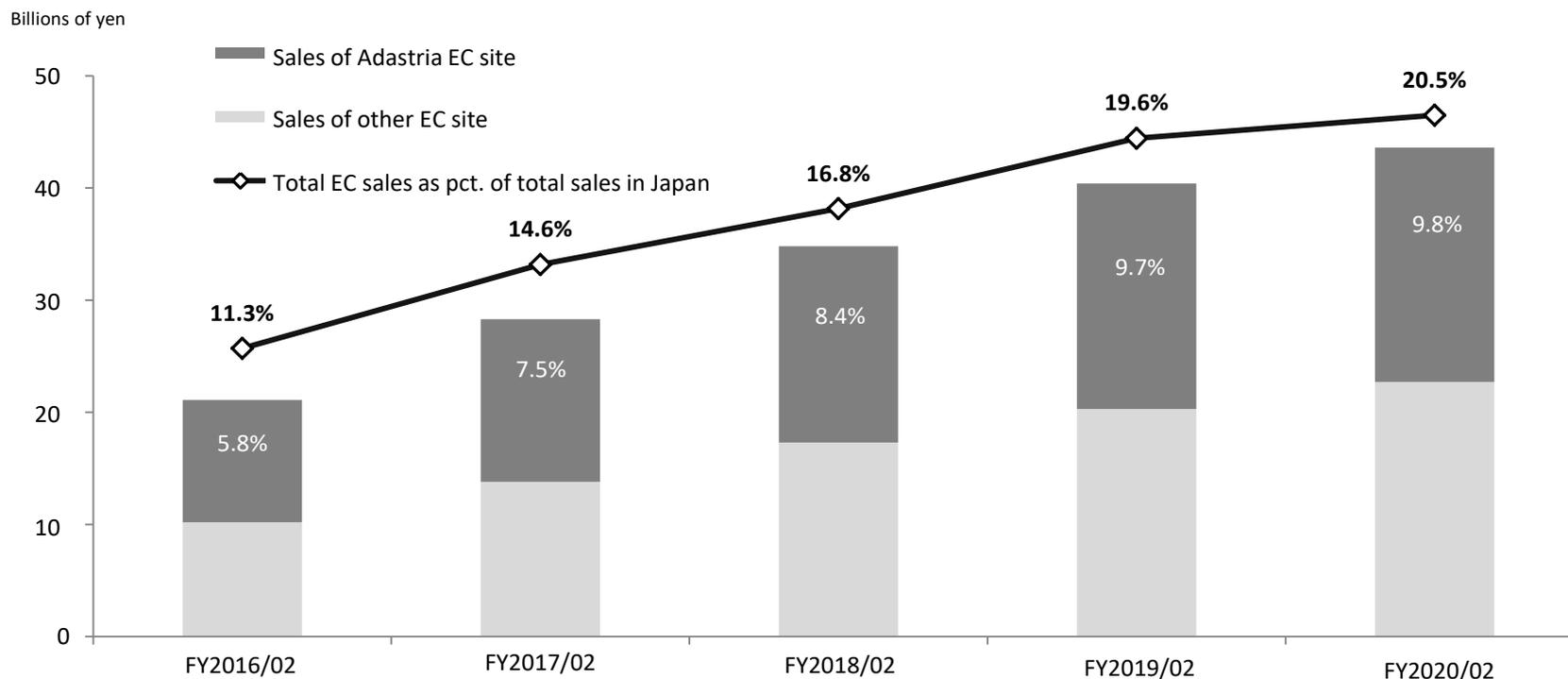
Opened	66	33
Closed	▲ 92	▲ 66
Renovated	28	27
As of the end of fiscal year	1,262	1,229

* : Amortization of goodwill for FY2019/02 : 1,086 million yen, FY2020/02 : 122 million yen

Online Business

Domestic Online business growth continued

- FY2020/02 domestic e-commerce sales: **43.6** billion yen (+7.6% YoY)
 - Domestic online business ratio: 20.5% (Adastria EC site: approx. 9.8%)
 - Adastria's ".st" EC site has about 10.3 million members (+1.6 million from the end of FY2019/02)
 - Although the launch of an omni-channel service 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.

Overseas Business

Millions of yen

	FY2018/12	FY2019/12		
		Results	Results	
				YoY (JPY)
Net sales	15,308	12,743	83.2%	85.3%
Hong Kong	5,300	3,431	64.7%	65.5%
China	1,416	534	37.8%	29.8%
Taiwan	2,417	2,532	104.8%	108.8%
Korea	1,232	1,171	95.1%	102.0%
USA	4,940	5,072	102.7%	104.0%
Operating profit	▲ 2,428	▲ 902	-	-
Hong Kong	▲ 1,226	▲ 318	-	-
China	▲ 953	▲ 573	-	-
Taiwan	66	171	256.8%	266.7%
Korea	▲ 199	▲ 213	-	-
USA *	▲ 115	31	-	-

* : Amortization of goodwill of USA FY2018/12: 39 million yen, FY2019/12: 25 million yen

- In Hong Kong and China, sales were down but the loss decreased due to the closure of unprofitable stores in FY2018/12
- In Taiwan, sales and earnings increased because of the strong performances of GLOBAL WORK and niko and ... as well as the launch of new brands, which were brought from the parent company
- In the United States, sales were steady and operations became profitable as the performance of the wholesale business recovered

Consolidated Balance Sheet

Millions of yen

	End of 2019/02		End of 2020/02		
		Ratio		Ratio	Compared with the end of 2019/02
Current assets	48,050	52.7%	53,234	54.4%	+5,184
Cash and deposits	18,726	20.5%	26,462	27.0%	+7,736
Inventories	17,592	19.3%	15,008	15.3%	▲ 2,583
Non-current assets	43,213	47.3%	44,689	45.6%	+1,476
Property, plant and equipment	13,440	14.7%	15,265	15.6%	+1,824
Goodwill	648	0.7%	478	0.5%	▲ 169
Investments and other assets	23,882	26.2%	23,146	23.6%	▲ 736
Total assets	91,263	100.0%	97,924	100.0%	+6,661
Liabilities	38,303	42.0%	40,883	41.7%	+2,579
Interest-bearing debt	2,552	2.8%	0	0.0%	▲ 2,552
Net assets	52,959	58.0%	57,041	58.3%	+4,081
Treasury shares	▲ 4,575	▲ 5.0%	▲ 4,372	▲ 4.5%	+202

* 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 sheet for the end of FY2019/02

- Cash and deposits: Net cash is 10.2 billion yen higher than one year earlier
- Inventories: Down 14.7% from one year earlier because of measures for controlling inventory rigorously
- Non-current assets: The addition of utilization rights due to the application of IFRS No. 16 at Asian subsidiaries at the beginning of the FY2020/02
- Liabilities: The addition of lease liabilities due to the application of IFRS No. 16 as the same as above
- Net assets: Financial position remains sound with net asset ratio of 58.3%, up 0.3 pct. point from one year earlier

Number of Stores

	End of FY2019	FY2020/02 Results			
	Number of stores	Opened	Changed	Closed	End of FY2020/02
GLOBAL WORK	213	4	0	▲ 7	210
niko and ...	139	8	0	▲ 3	144
LOWRYS FARM	139	1	0	▲ 4	136
studio CLIP	190	3	0	▲ 10	183
LEPSIM	132	2	0	▲ 6	128
JEANASIS	73	0	0	0	73
BAYFLOW	49	7	0	▲ 2	54
RAGEBLUE	58	0	0	▲ 4	54
Others	269	8	0	▲ 30	247
Adastria non-consolidated total	1,262	33	0	▲ 66	1,229
(Online store included)	(52)	(9)	(0)	(▲ 7)	(54)
Domestic subsidiaries total *1	80	13	0	▲ 7	86
(Online store included)	(14)	(4)	(0)	(▲ 2)	(16)
Japan total	1,342	46	0	▲ 73	1,315
(Online store included)	(66)	(13)	(0)	(▲ 9)	(70)
Hong Kong	20	0	0	▲ 4	16
China	10	1	0	▲ 10	1
Taiwan	34	6	0	▲ 3	37
Korea	12	1	0	0	13
USA	9	1	0	0	10
Oversea total	85	9	0	▲ 17	77
(Online store included)	(13)	(3)	(0)	(▲ 3)	(13)
Consolidated total	1,427	55	0	▲ 90	1,392
(Online store included)	(79)	(16)	(0)	(▲ 12)	(83)

FY2021/02 Plan				
Transferred	Open	Change	Close	End of FY2021/02
-	2	▲ 1	0	211
-	3	0	0	147
-	0	0	▲ 1	135
-	4	0	0	187
-	0	0	▲ 2	126
-	2	0	▲ 3	72
-	3	0	0	57
-	1	0	▲ 1	54
▲ 3	25	1	▲ 3	267
▲ 3	40	0	▲ 10	1,256
(▲ 2)	(9)	(0)	(0)	(61)
3	18	0	▲ 4	103
(2)	(4)	(0)	(0)	(22)
-	58	0	▲ 14	1,359
-	(13)	(0)	(0)	(83)
-	0	0	▲ 2	14
-	5	0	0	6
-	7	0	▲ 1	43
-	4	0	0	17
-	2	0	0	12
-	18	0	▲ 3	92
-	(3)	(0)	(0)	(16)
-	76	0	▲ 17	1,451
-	(16)	(0)	(0)	(99)

*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.

Impact of COVID-19

■ March 2020

- About 90% of stores in Japan reduced operating hours by one or two hours throughout the month.
- 277 stores in Kanto region closed on March 28~29 because of the government request to refrain from going out.
→ As many people stayed home, the number of customers for Adastria (parent company) in March was down 20% year on year.
- EC sales increased more than 10% year on year.
- Operations is affected in most of our overseas stores but the performance of store in China is starting to recover.
- Regarding production and distribution, some spring merchandise was delayed by about two weeks but most factories have restarted operations. Expect deliveries as planned for summer merchandise and subsequent products.

■ Countermeasures

- Preventive measures, shorter store operating hours and other actions that place the highest priority on the safety of customers and employees
- Switch to digital formats for the all-Japan store managers conference and other large events
- Revise production locations and the size of merchandise orders to reflect the outlook for consumer spending
- Strengthen e-commerce sales operations with measures such as an e-commerce loyalty point program and adjustments in the allocation of inventories

FY2021/02 Consolidated Forecast

- There is no forecast because the many uncertainties about the outlook, including the inability to determine when consumer sentiment will rebound, make it impossible to determine a reliable forecast at this time.
- A forecast will be disclosed promptly when a reliable forecasts are feasible.

Return to Shareholders

Millions of yen

	FY2016/02	FY2017/02	FY2018/02	FY2019/02	FY2020/02	FY2021/02 (Forecast)
Dividend per share (Yen) *1	65	75	50	50	50	-
Interim dividend	(20)	(35)	(35)	(20)	(25)	-
Total dividend	3,138	3,608	2,379	2,379	2,382	-
Net income (consolidated)	9,122	11,575	863	3,890	6,363	-
Amortization of goodwill *2	2,213	2,184	4,712	1,306	167	-
Dividend payout ratio	34.5%	30.9%	272.3%	60.5%	37.0%	-
(Amortization of goodwill excluded)	(27.8%)	(26.0%)	(42.2%)	(45.3%)	(36.1%)	-
Share repurchase	1,395	2,564	0	0	0	-

*1: Dividend per share for FY2016/02 is adjusted for the 2:1 stock split on March 1, 2016

*2: 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
- The dividends for FY2021/02 are undecided at this time and will be disclosed promptly when forecasts are announced

3. Growth Strategy Progress and Goals

Growth Strategy Progress and Goals

Actions in FY2021/02 will not be a continuation of past strategies.

This is a year to start building a business framework that looks ahead to 2025 and beyond.

Once specific strategic actions have been determined, new medium/long-term numerical targets will be established.

FY2019/02–FY2021/02 Growth Strategies		FY2019/02 Actions and Accomplishments	FY2020/02 Actions and Accomplishments
Strategy 1: Build an infrastructure that can consistently increase earnings	Maintain proper inventory levels and control price discounts	Improved profitability by reducing price discounts and stopping sales of discounted “mystery gift” bags	Reduced discounted sales of merchandise by focusing on proper timing, volumes and pricing and maintaining proper inventory levels
	Use Adastria’s exclusive SPA (specialty store retailer of private label apparel) framework to improve product planning skills	Established an action plan for strengthening core brands Took actions for upgrading product planning and revision capabilities	Core brands continue to perform well More measures for quick response production during the season Use factories in the interior of China and the ASEAN region
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	Raised the value of membership by expanding the loyalty point program	Adastria e-commerce members surpassed 10 million Postponed the updating of the Adastria e- commerce system Continuing to take actions for growth in the future
	Rebuild overseas operations	Finished preparations for rebuilding operations in Hong Kong and China	Created strategies for individual regions, including for the Asia business Assigned a director to the office in Shanghai Opened global flagship store for niko and ...in Shanghai
	Start operations in new business domains	Brands exclusively for online business activities posted rapid growth Started sales of jewelry, cosmetics and intimate products	Developed a brand for “next-generation adults” The restaurant subsidiary started opening new locations
Strategy 3: Build a foundation that can support innovation and growth	Make management of the entire Adastria Group more powerful	Continued to operate and revise new organizations Expanded a distribution center and improved functions and efficiency to prepare for growth	Raised productivity of internal group functions Played a role in solving social and business issue
Progress toward numerical targets	Operating margin	3.2%	5.8%
	ROE	7.5%	11.6%

FY2021/02 Goals

Progress with increasing
profitability, value chain
improvements, rebuilding
the overseas business
and launching businesses
in new sectors

In view of the recent
situation, we are shifting
to the realization of our
vision for the future in
2025 and beyond.

Target 8.0% withdrawn

Target 15.0% withdrawn

The 2025 Growth Strategy

Our goal: More customers x More value for customers

More value for customers

Growth Strategy I

Use multiple brands to serve customers throughout their lives

Growth Strategy II

Use services and experiences to maximize customer interaction

Growth Strategy III

Use resources of regions worldwide to create value jointly

Growth Strategy IV

Start new businesses linked to enjoyable and fulfilling lives

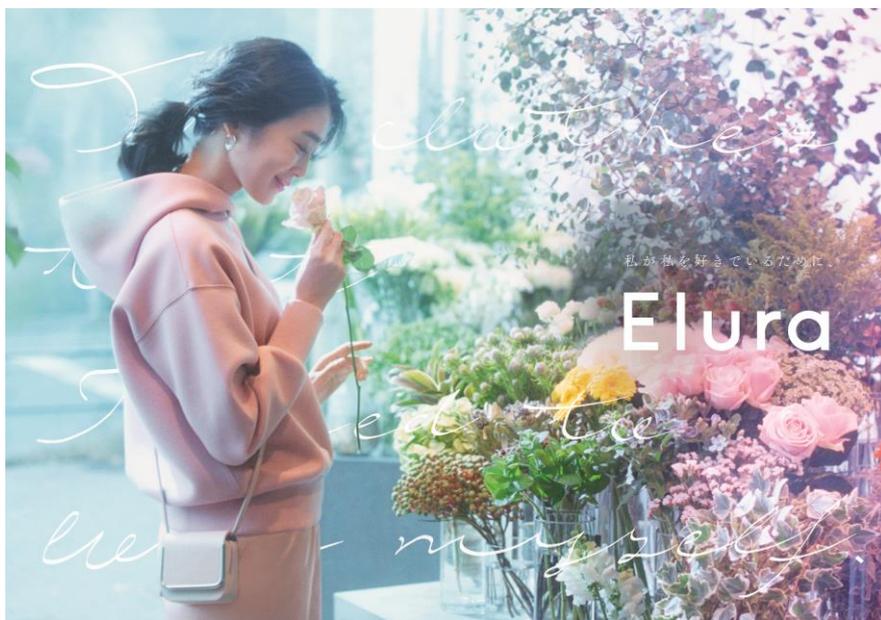
More customers

I. Use Multiple Brands to Serve Customers Throughout Their Lives

Maximize customer lifetime value by developing merchandise for the “next-generation adult” market

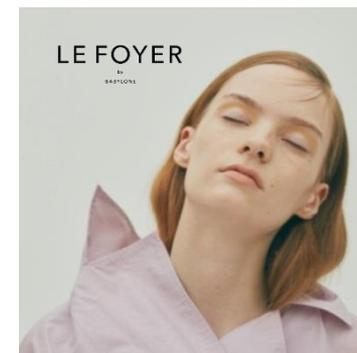
Elura

- A brand to be a source of new ideas, just like cosmetics are, for dealing with changes and difficulties mature women between the ages of 40 and 59 encounter
- Opened LaLaport TOKYO-BAY store in March 2020
- Plan to increase the store network to 10 locations (including one e-commerce store) during FY2021/02



E ELEMENT RULE

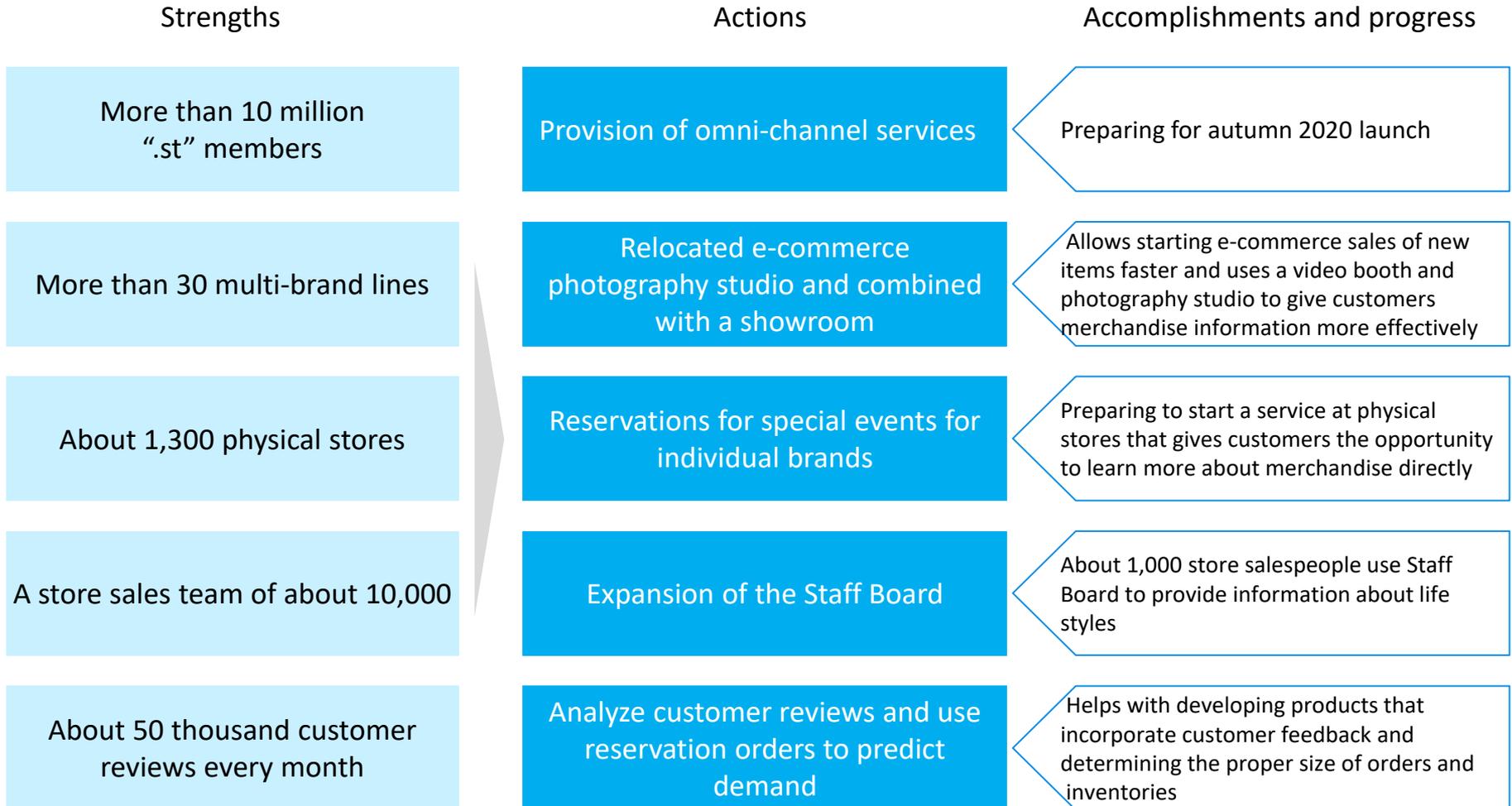
- New brands making its debut in 2020 created by ELEMENT RULE Co., Ltd., which sells apparel for adults



Mazell
by BARNYARDSTORM

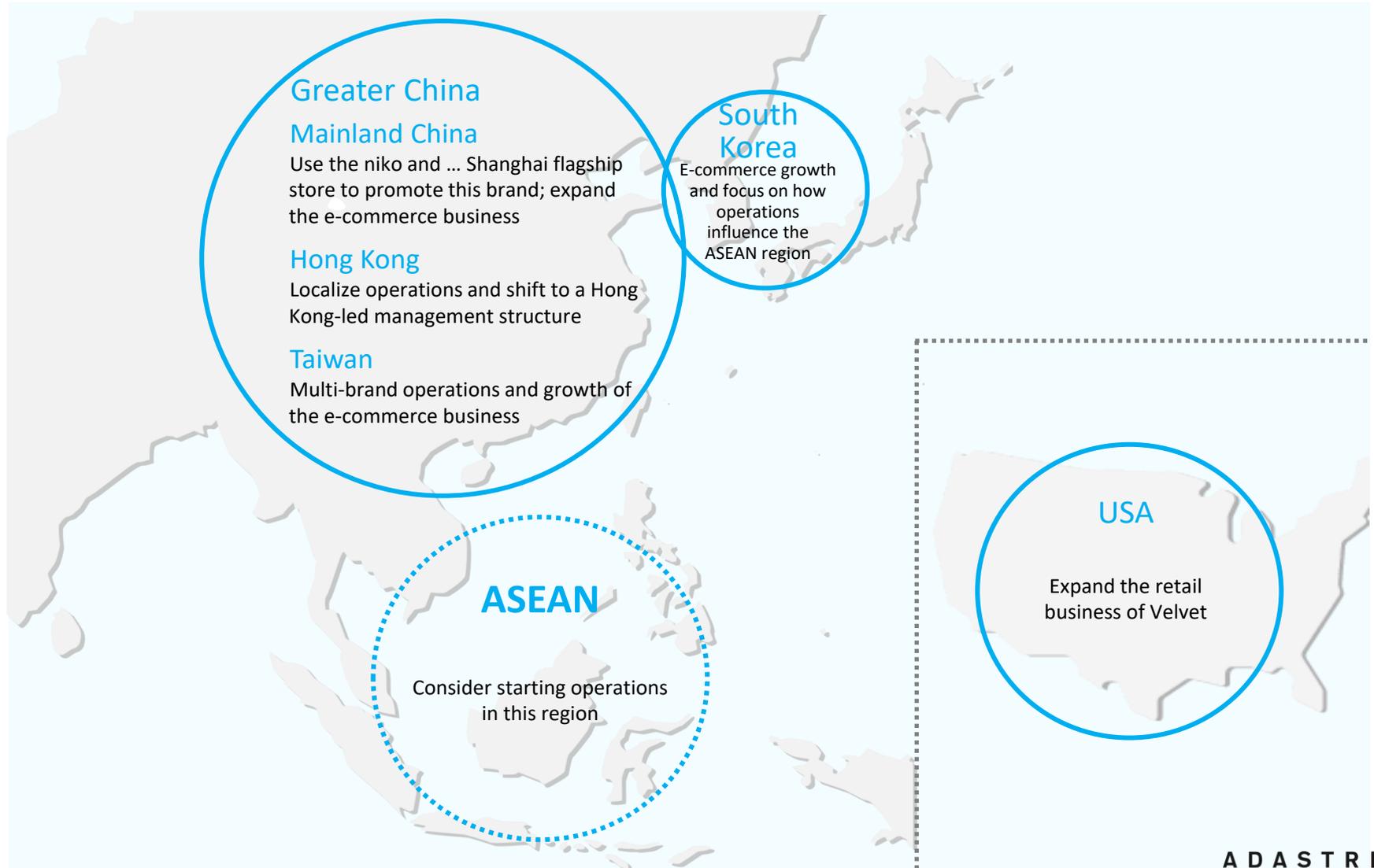
II. Use Services and Experiences to Maximize Customer Interaction

Use our core strengths to build a high-quality customer base for the Adastria “.st” e-commerce website and establish a platform that brings people together



III. Use Resources of Regions Worldwide to Create Value Jointly

GLOCAL – Create strategies for specific regions in order to localize the global market



III. Use Resources of Regions Worldwide to Create Value Jointly

■ Shanghai flagship store for niko and ... opened in December 2019

- The store is performing as planned as the symbol of Aداستria's growth in Asia. In addition to providing information about the niko and ... brand, the store is base for building a framework for the procurement and development of merchandise in China.



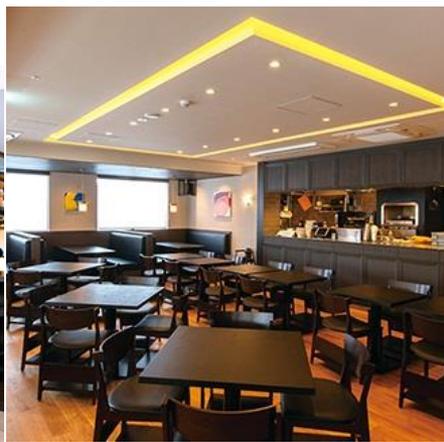
IV. Start New Businesses Linked to Enjoyable and Fulfilling Lives

Build a framework for combining the know-how of employees and partners for starting businesses in entirely new sectors.

■ Food and beverage business: Work with partner companies and brands to aim for rapid growth of new businesses

ADASTRIA eat Creations

- A franchised store has opened at the Minamimachida Grandberry Park shopping center in Tokyo
- The second floor restaurant has menu items newly created for this location



- Jamba operates a U.S. chain of smoothie and juice shops
- Adastria has the exclusive right to operate these shops in Japan
- Plan to operate pop-up locations during the summer of 2020



Our Commitment to Sustainable Management

Use business operations to play a role in solving business and social issues

Policy for Corporate Social Responsibility

Keep fashion exciting for many more years



Protect the environment
Use business operations to reduce the environmental impact and ensure the sustainability of the fashion industry



Make people shine
Maintain an environment where customers, employees and all others who interact with Adastria enjoy every day as much as possible



Growing with communities
Work with communities to create new forms of value across the entire value chain



Reduce apparel disposals by placing orders in the proper volumes



Increase the ratio of women in department manager and higher positions



CSR procurement program to certify of partner factories



Reduce the use of shopping bags, and other initiatives



Promote LGBTQ+ understanding and acceptance,



Work with local community including sponsorship

A D A S T R I A

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Play fashion!