

**Summary of Consolidated Financial Results**  
**for the Second Quarter of the Fiscal Year Ending February 28, 2019**  
**(Six Months Ended August 31, 2018)**

**[Japanese GAAP]**

September 28, 2018

Company name: Adastria Co., Ltd.

Listing: TSE 1st section

Stock code: 2685

URL: <http://www.adastria.co.jp>

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Scheduled date of filing of Quarterly Report:

October 15, 2018

Scheduled date of payment of dividend:

October 22, 2018

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting:

Yes (for investors)

Note: The original disclosure in Japanese was released on September 28, 2018 at 15:00 (GMT +9).

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

**1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending February 28, 2019**  
**(March 1, 2018 – August 31, 2018)**

(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	%
Six months ended Aug. 31, 2018	105,005	(2.6)	529	(86.0)	600	(84.6)	(554)	-
Six months ended Aug. 31, 2017	107,793	10.3	3,790	(52.9)	3,900	(51.5)	4,794	(1.1)

Note: Comprehensive income Six months ended Aug. 31, 2018: (744) million yen (-%)

Six months ended Aug. 31, 2017: 1,796 million yen (down 47.8%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Aug. 31, 2018	(11.79)	-
Six months ended Aug. 31, 2017	101.92	-

Reference: EBITDA

Six months ended Aug. 31, 2018: 4,895 million yen (down 41.3%)

Six months ended Aug. 31, 2017: 8,337 million yen

EPS before goodwill amortization Six months ended Aug. 31, 2018: 13.11 yen (down 89.8%)

Six months ended Aug. 31, 2017: 129.08 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.

Note: The provisional accounting treatment for a business combination was finalized at the end of fiscal year ended on February 28, 2018. As a result, figures for the six months ended August 31, 2017 reflect a significant revision of the initial allocation of the acquisition cost for the business combination.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Aug. 31, 2018	88,884	49,650	55.9
As of Feb. 28, 2018	91,123	51,030	56.0

Reference: Shareholders' equity As of Aug. 31, 2018: 49,650 million yen As of Feb. 28, 2018: 51,030 million yen

**2. Dividends**

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Feb. 28, 2018	-	35.00	-	15.00	50.00
Fiscal year ending Feb. 28, 2019	-	20.00	-	-	-
Fiscal year ending Feb. 28, 2019 (forecast)	-	-	-	30.00	50.00

Note: Revision to the most recently announced dividend forecast: None

**3. Consolidated Forecast for the Fiscal Year Ending February 28, 2019 (March 1, 2018 – February 28, 2019)**

(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	227,000	1.9	8,400	67.8	8,700	60.3	4,400	409.4	93.54

Note: Revision to the most recently announced consolidated forecast: None

Reference: EBITDA

Fiscal year ending Feb. 28, 2019 (forecast): 16,000 million yen (up 5.7%)

EPS before goodwill amortization Fiscal year ending Feb. 28, 2019 (forecast): 121.17 yen (up 2.2%)

**\* 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: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of outstanding shares (common stock)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Aug. 31, 2018:	48,800,000 shares	As of Feb. 28, 2018:	48,800,000 shares
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2) Number of treasury shares at the end of the period

As of Aug. 31, 2018:	1,736,224 shares	As of Feb. 28, 2018:	1,759,875 shares
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3) Average number of shares outstanding during the period

Six months ended Aug. 31, 2018:	47,053,776 shares	Six months ended Aug. 31, 2017:	47,041,975 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 six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)	First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)	YoY change (Amount)	YoY change (%)
Net sales	107,793	105,005	(2,787)	(2.6)
Operating profit	3,790	529	(3,260)	(86.0)
Ordinary profit	3,900	600	(3,300)	(84.6)
Net income attributable to owners of the parent	4,794	(554)	(5,349)	-
EBITDA	8,337	4,895	(3,442)	(41.3)
EPS before goodwill amortization (Yen)	129.08	13.11	(115.96)	(89.8)

Consolidated net sales in the first half (March 1 - August 31, 2018) decreased 2.6% year-on-year to 105,005 million yen, operating profit decreased 86.0% to 529 million yen, ordinary profit decreased 84.6% to 600 million yen, and net loss attributable to owners of the parent was 554 million yen (net income of 4,794 million yen in the same period of the previous fiscal year).

Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased 41.3% to 4,895 million yen and earnings per share (EPS) before goodwill amortization fell 89.8% to 13.11 yen. (\*)

Overseas sales were 16.3% higher than one year earlier because of the first full contribution to first-half sales of Velvet, LLC, a U.S. company that was consolidated at the end of the first quarter of the previous fiscal year. Sales in Japan decreased 3.7%. The result was a 2.6% decrease in consolidated net sales.

The primary reason for lackluster sales in Japan was slow sales of summer merchandise in April and May for brands other than *niko and ...*. In response, summer discount sales and the launch of late-summer merchandise were conducted earlier than initially planned. Although sales started to recover in June due to these activities, sales were lackluster because of unfavorable weather including extremely high temperatures and heavy rain in July. As a result, the upturn in second quarter sales was not enough to offset the decline in the first quarter. (Please refer to the section “3. Supplementary Information, (1) Sales for Brands and Regions” for further information.)

We opened 52 stores (including 7 overseas) and closed 70 stores (including 18 overseas), resulting in a total network of 1,485 stores (including 115 overseas) at the end of second quarter of this fiscal year. In China, unprofitable stores were closed in accordance with the business revitalization policy established in the previous fiscal year. (Please refer to the section “3. Supplementary Information, (3) Number of Stores” for further information.)

The gross profit margin decreased 1.9 percentage points from one year earlier to 53.9%. The main cause was increased sales of merchandise at discounted prices to reduce inventories in response to slow sales in Japan, as was explained earlier.

The ratio of selling, general and administrative (SG&A) expenses to sales increased 1.2 percentage points to 53.4%. SG&A expenses slightly decreased year on year. There were no expenses for relocating the head office, which were incurred in the previous fiscal year, while expenditures were made for TV commercials and other marketing activities and, sales promotion expenses for e-commerce business, and merchandise delivery expenses increased. As a result, the operating margin decreased 3.0 percentage points to 0.5%.

There were extraordinary losses of 276 million yen for the impairment of store assets.

(\*) Since the fiscal year that ended in February 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**

### **1) Balance sheet position**

Total assets decreased 2,238 million yen from as of February 28, 2018 to 88,884 million yen as of August 31, 2018. This was mainly due to decreases in cash and deposits of 3,743 million yen and goodwill of 1,178 million yen, while there were increases in other, net under property, plant and equipment of 1,311 million yen and notes and accounts receivable-trade of 1,173 million yen.

Liabilities decreased 858 million yen to 39,234 million yen. This was mainly due to decreases in electronically recorded obligations-operating of 1,429 million yen and accounts payable-other of 242 million yen, while there was an increase in notes and accounts payable-trade of 873 million yen.

Net assets decreased 1,379 million yen to 49,650 million yen. This was mainly due to a decrease in retained earnings of 1,268 million yen.

### **2) Cash flow position**

Cash and cash equivalents (hereinafter “net cash”) as of August 31, 2018 amounted to 15,633 million yen, or 3,747 million yen less than as of February 28, 2018.

A summary of cash flows from each activity during the first half of the current fiscal year is as follows:

Cash flows from operating activities

Net cash provided by operating activities totaled 2,516 million yen (compared with 5,395 million yen provided in the same period of the previous fiscal year). The main positive factors include depreciation of 3,258 million yen. Main negative factors include a 1,220 million yen increase in notes and accounts receivable-trade.

Cash flows from investing activities

Net cash used in investing activities totaled 5,326 million yen (compared with 4,396 million yen used in the same period of the previous fiscal year). This was mainly due to the payments of 4,093 million yen for the purchase of property, plant and equipment, and 1,353 million yen for the purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities totaled 888 million yen (compared with 2,971 million yen used in the same period of the previous fiscal year). This was mainly due to cash dividends paid of 715 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, 2018.

## 2. Quarterly Consolidated Financial Statements and Notes

### (1) Quarterly Consolidated Balance Sheet

	(Million yen)	
	FY2/18 (As of Feb. 28, 2018)	Second quarter of FY2/19 (As of Aug. 31, 2018)
<b>Assets</b>		
Current assets		
Cash and deposits	19,446	15,702
Notes and accounts receivable-trade	8,810	9,984
Inventories	18,073	17,814
Other	3,570	3,623
Allowance for doubtful accounts	(116)	(71)
Total current assets	49,785	47,053
Non-current assets		
Property, plant and equipment		
Store interior equipment, net	7,301	7,374
Other, net	5,022	6,334
Total property, plant and equipment	12,324	13,708
Intangible assets		
Goodwill	1,959	781
Other	4,255	4,929
Total intangible assets	6,214	5,710
Investments and other assets		
Investment securities	1,101	1,028
Lease and guarantee deposits	18,263	17,784
Other	3,711	3,913
Allowance for doubtful accounts	(278)	(313)
Total investments and other assets	22,799	22,412
Total non-current assets	41,338	41,831
Total assets	91,123	88,884
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	10,227	11,101
Electronically recorded obligations-operating	9,898	8,469
Short-term loans payable	2,657	2,536
Accounts payable-other	9,418	9,175
Income taxes payable	1,322	1,487
Provision for bonuses	2,413	2,508
Provision for point card certificates	698	820
Provision for loss on business liquidation	1,141	959
Other provision	140	273
Other	527	464
Total current liabilities	38,446	37,797
Non-current liabilities		
Provision	346	267
Other	1,299	1,169
Total non-current liabilities	1,645	1,437
Total liabilities	40,092	39,234

(Million yen)

	FY2/18 (As of Feb. 28, 2018)	Second quarter of FY2/19 (As of Aug. 31, 2018)
Net assets		
Shareholders' equity		
Capital stock	2,660	2,660
Capital surplus	7,227	7,227
Retained earnings	45,245	43,976
Treasury shares	(4,652)	(4,574)
Total shareholders' equity	50,480	49,290
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	235	163
Deferred gains or losses on hedges	(76)	30
Foreign currency translation adjustment	391	166
Total accumulated other comprehensive income	550	360
Total net assets	51,030	49,650
Total liabilities and net assets	91,123	88,884

**(2) Quarterly Consolidated Statements of Income and Comprehensive Income**

**Quarterly Consolidated Statement of Income**

**(For the Six-month Period)**

(Million yen)

	First six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)	First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)
Net sales	107,793	105,005
Cost of sales	47,693	48,356
Gross profit	60,099	56,649
Selling, general and administrative expenses	56,309	56,119
Operating profit	3,790	529
Non-operating income		
Dividend income	45	12
House rent income	55	47
Other	171	183
Total non-operating income	272	244
Non-operating expenses		
Interest expenses	10	18
Share of loss of entities accounted for using equity method	39	-
Foreign exchange losses	17	52
Loss on valuation of derivatives	18	47
Cost of lease revenue	48	44
Other	26	11
Total non-operating expenses	161	173
Ordinary profit	3,900	600
Extraordinary income		
Gain on sales of non-current assets	25	-
Gain on sales of investment securities	4,373	-
Total extraordinary income	4,398	-
Extraordinary losses		
Impairment loss	151	276
Total extraordinary losses	151	276
Net income before income taxes	8,148	323
Income taxes-current	3,323	1,142
Income taxes-deferred	29	(263)
Total income taxes	3,353	878
Net income (loss)	4,794	(554)
Net income (loss) attributable to owners of the parent	4,794	(554)

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

(Million yen)

	First six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)	First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)
Net income (loss)	4,794	(554)
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,077)	(72)
Deferred gains or losses on hedges	(10)	107
Foreign currency translation adjustment	90	(224)
Total other comprehensive income	(2,997)	(189)
Comprehensive income	1,796	(744)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	1,796	(744)
Comprehensive income attributable to non-controlling interests	-	-

**(3) Quarterly Consolidated Statement of Cash Flows**

(Million yen)

	First six months of FY2/18 (Mar. 1, 2017 – Aug. 31, 2017)	First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)
Cash flows from operating activities		
Net income before income taxes	8,148	323
Depreciation	3,427	3,258
Impairment loss	151	276
Amortization of goodwill	1,277	1,172
Increase (decrease) in allowance for doubtful accounts	59	(9)
Increase (decrease) in provision for bonuses	139	95
Increase (decrease) in provision for point card certificates	10	122
Increase (decrease) in provision for loss on business liquidation	-	(182)
Loss (gain) on sales of non-current assets	(25)	-
Loss (gain) on sales of investment securities	(4,373)	-
Share of (profit) loss of entities accounted for using equity method	39	-
Decrease (increase) in notes and accounts receivable-trade	(879)	(1,220)
Decrease (increase) in inventories	(523)	197
Increase (decrease) in notes and accounts payable-trade	2,140	(538)
Increase (decrease) in accounts payable-other	402	(170)
Increase (decrease) in accrued consumption taxes	(148)	188
Other, net	(241)	(116)
Subtotal	9,605	3,398
Interest and dividend income received	46	13
Interest expenses paid	(10)	(18)
Income taxes paid	(4,246)	(877)
Net cash provided by (used in) operating activities	5,395	2,516
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,366)	(4,093)
Proceeds from sales of property, plant and equipment	105	-
Purchase of intangible assets	(1,417)	(1,353)
Purchase of investment securities	(57)	(0)
Proceeds from sales of investment securities	5,082	-
Payments for lease and guarantee deposits	(1,589)	(484)
Proceeds from collection of lease and guarantee deposits	538	626
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(3,713)	-
Proceeds from acquisition of business	1,023	-
Other, net	(2)	(20)
Net cash provided by (used in) investing activities	(4,396)	(5,326)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	(231)	(57)
Repayments of long-term loans payable	(725)	-
Cash dividends paid	(1,903)	(715)
Purchase of treasury shares	(3)	(1)
Other, net	(107)	(114)
Net cash provided by (used in) financing activities	(2,971)	(888)
Effect of exchange rate change on cash and cash equivalents	(6)	(49)
Net increase (decrease) in cash and cash equivalents	(1,979)	(3,747)
Cash and cash equivalents at beginning of period	20,706	19,381
Cash and cash equivalents at end of period	18,727	15,633

#### (4) Notes to Quarterly Consolidated Financial Statements

##### Going Concern Assumption

Not applicable.

##### Significant Changes in Shareholders' Equity

Not applicable.

### 3. Supplementary Information

#### (1) Sales for Brands and Regions

Brand / region	First six months of FY2/19		YoY change (%)
	Sales (million yen)	Composition (%)	
GLOBAL WORK	18,726	17.8	(4.8)
niko and ...	15,124	14.4	11.1
STUDIO CLIP	11,883	11.3	(4.2)
LOWRYS FARM	10,300	9.8	(14.5)
LEPSIM	7,174	6.8	(3.6)
JEANASIS	5,708	5.5	(4.4)
BAYFLOW	4,050	3.9	7.2
RAGEBLUE	3,609	3.5	(12.8)
Others (Notes 3 and 4)	13,048	12.4	(25.3)
Total (Adastria)	89,626	85.4	(7.1)
ALICIA CO., LTD. (Note 3)	4,210	4.0	(16.7)
ELEMENT RULE Co., Ltd. (Note 4)	3,933	3.7	-
Other consolidated subsidiaries	1	0.0	-
Total (Japan)	97,772	93.1	(3.7)
Hong Kong	2,616	2.5	(12.3)
China	793	0.7	(11.4)
Taiwan	1,149	1.1	42.5
South Korea	591	0.6	40.2
USA (Note 5)	2,083	2.0	87.0
Total (Overseas)	7,233	6.9	16.3
Total (Group)	105,005	100.0	(2.6)

- 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. On August 1, 2018, Adastria conducted an absorption-type split where three business units including the *PAGEBOY* business unit of ALICIA CO., LTD. were divested and then transferred to Adastria.
  4. On March 1, 2018, Adastria conducted an absorption-type split where the *BARNYARDSTORM* and *BABYLONE* business units of Adastria were divested and then transferred to consolidated subsidiary ELEMENT RULE Co., Ltd.
  5. As Velvet, LLC (USA) became a consolidated subsidiary at the end of the first quarter of FY2/18, YoY change on USA is the comparison of six months (January to June) of FY2/19 to three months (April to June) of FY2/18.

**(2) Sales for Merchandise Categories**

Category	First six months of FY2/19		YoY change (%)
	Sales (million yen)	Composition (%)	
Men's apparel (bottoms, tops)	14,201	13.5	(3.7)
Lady's apparel (bottoms, tops)	69,700	66.4	(2.7)
Others	21,104	20.1	(1.3)
Total	105,005	100.0	(2.6)

- 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 Aug. 31, 2018
	As of Feb. 28, 2018	First six months of FY2/19				Increase /decrease	
		Absorption -type split	Opened	Changed	Closed		
GLOBAL WORK	210	-	6	-	(1)	5	215
niko and ...	132	-	4	-	(1)	3	135
STUDIO CLIP	195	-	1	-	(4)	(3)	192
LOWRYS FARM	149	-	2	-	(6)	(4)	145
LEPSIM	138	-	2	-	(3)	(1)	137
JEANASIS	76	-	1	-	(3)	(2)	74
BAYFLOW	39	-	6	-	-	6	45
RAGEBLUE	57	-	3	-	(2)	1	58
Others (Notes 3 and 4)	279	14	11	-	(13)	12	291
Total (Adastria)	1,275	14	36	-	(33)	17	1,292
ALICIA CO., LTD. (Note 3)	100	(82)	1	2	(19)	(98)	2
ELEMENT RULE Co., Ltd. (Note 4)	-	68	8	-	-	76	76
Total (Japan)	1,375	-	45	2	(52)	(5)	1,370
Hong Kong	24	-	1	-	(1)	-	24
China	49	-	-	-	(14)	(14)	35
Taiwan	31	-	6	-	(2)	4	35
South Korea	11	-	-	-	-	-	11
USA	11	-	-	-	(1)	(1)	10
Total (Overseas)	126	-	7	-	(18)	(11)	115
Total (Group)	1,501	-	52	2	(70)	(16)	1,485

- 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.  
 3. On August 1, 2018, Adastria conducted an absorption-type split where three business units including the *PAGEBOY* business unit of ALICIA CO., LTD. were divested and then transferred to Adastria.  
 4. On March 1, 2018, Adastria conducted an absorption-type split where the *BARNYARDSTORM* and *BABYLONE* business units of Adastria were divested and then transferred to consolidated subsidiary ELEMENT RULE Co., Ltd.

*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.*