



Adastria Co., Ltd.

Business strategy & financial results

October, 2016

I.	Introduction	...P.2
II.	From strong growth to change phase	...P.5
III.	To become a leading global multi-brand SPA company	...P.11
IV.	Financial results and FY2017/02 forecast	...P.23



I. Introduction

Key numbers (FY2016/02)

Fashion retail company



Net sales

¥**200,038** millions

Operating income

¥**16,004** millions

EBITDA

¥**24,612** millions

Total asset

¥**90,454** millions

Net asset

¥**53,282** millions



Domestic number of stores

1,220

Overseas number of stores

104¹

Total floor space

262,668 m²

Number of employees (Full-time)

4,760

Number of employees (Part-time)

5,997²

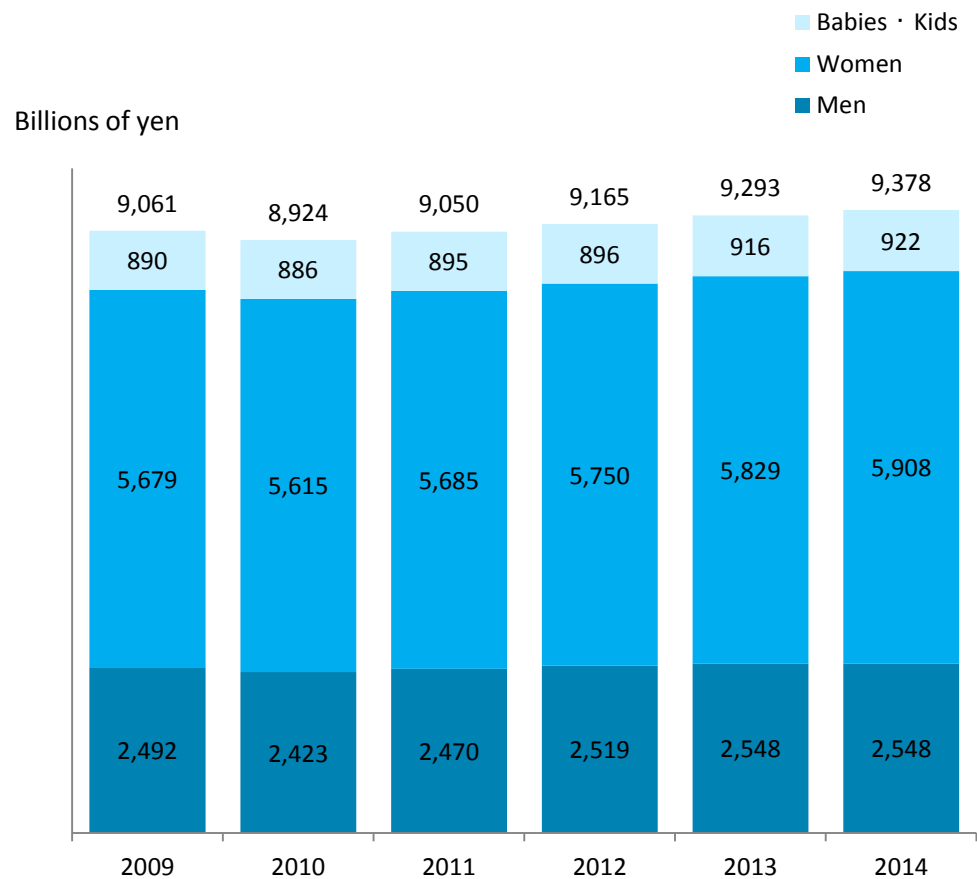


Note

- 1. Number of overseas stores is as of the end of 2015.
- 2. The number of part-time employees is on an annual average basis, and is adjusted to be comparable to the full-time employment (8 hours working per day).

Market size of retail apparel industry in Japan

Market size of retail apparel industry



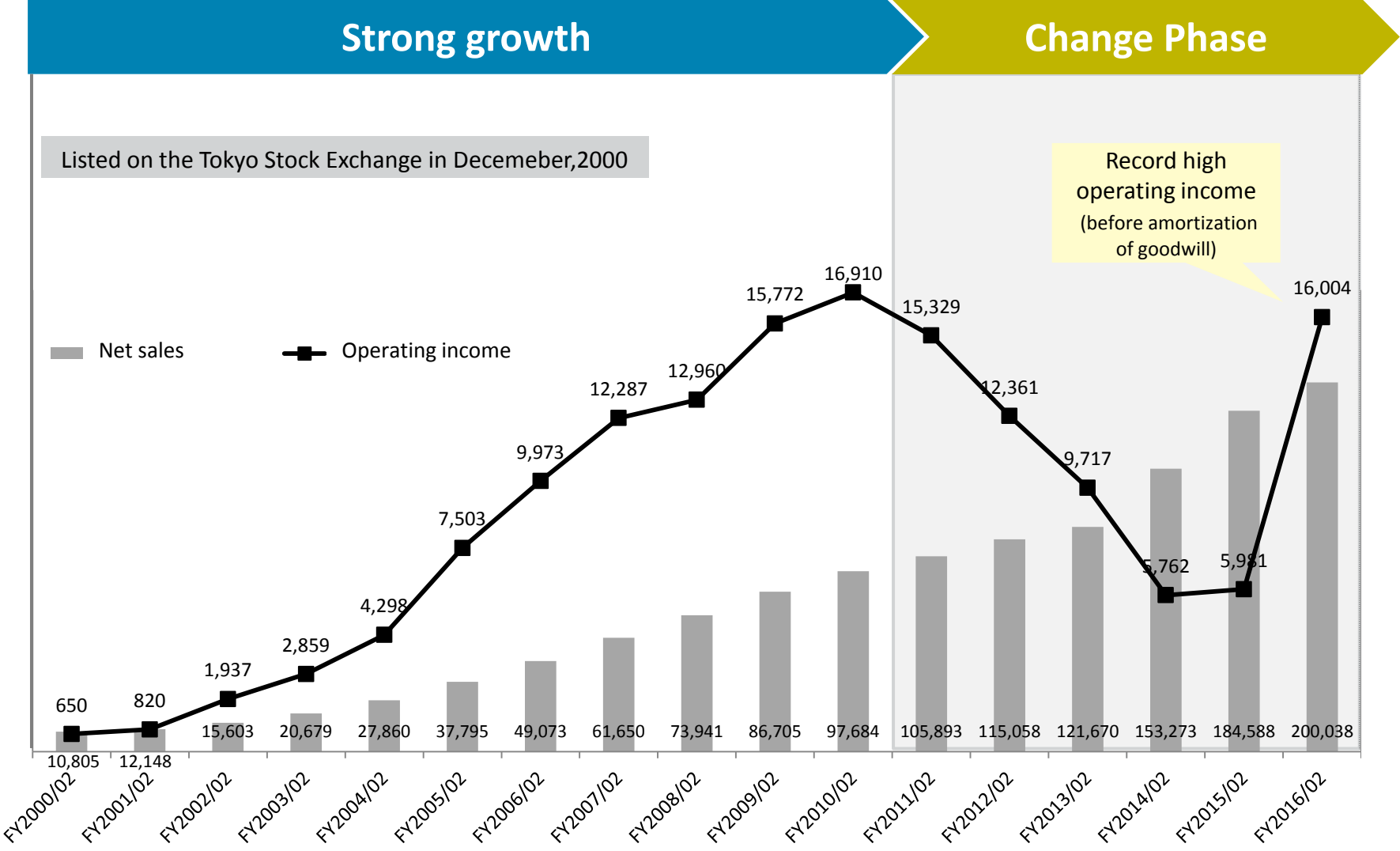
Yano Research Institute Ltd. “Apparel Market in Japan 2015”

Sales ranking for apparel retailers in Japan

Billions of yen			
1	Uniqlo	780	FY2015/8
2	Shimamura	546	FY2016/2
3	Adastria	200	FY2016/2
4	Aoyama Trading	189	FY2016/3
5	GU	141	FY2015/8
6	United Arrows LTD.	140	FY2016/3
7	Nishimatsuya Chain	132	FY2016/2
8	Pal	114	FY2016/2
9	Aoki Holdings	114	FY2016/3
10	Cross Company	110	FY2015/1



Earnings for the past 15 years



Key factors for our strong growth

- From FY2000/02 to FY2010/02, net sales increased by 9 times, operating profit by 26 times, and ROE trended around 30%



Profit deterioration and issues

Earnings have deteriorated for the following reasons

- Undifferentiated products and similar business models with our domestic competitors



- Growing presence and sales expansion of global SPA players in Japan

H&M

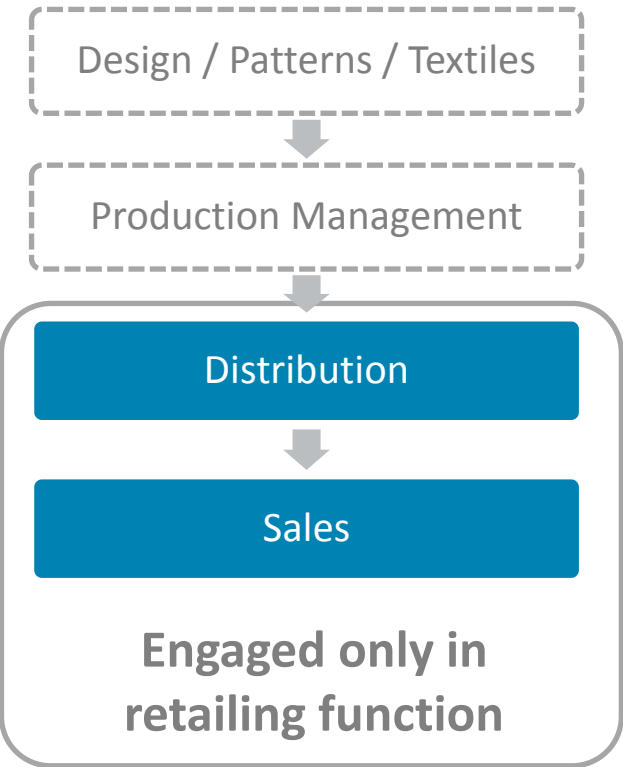
ZARA

FOREVER 21®

- Brand cannibalization
- Saturation of SC market

Change in business model

Previous model



Current model

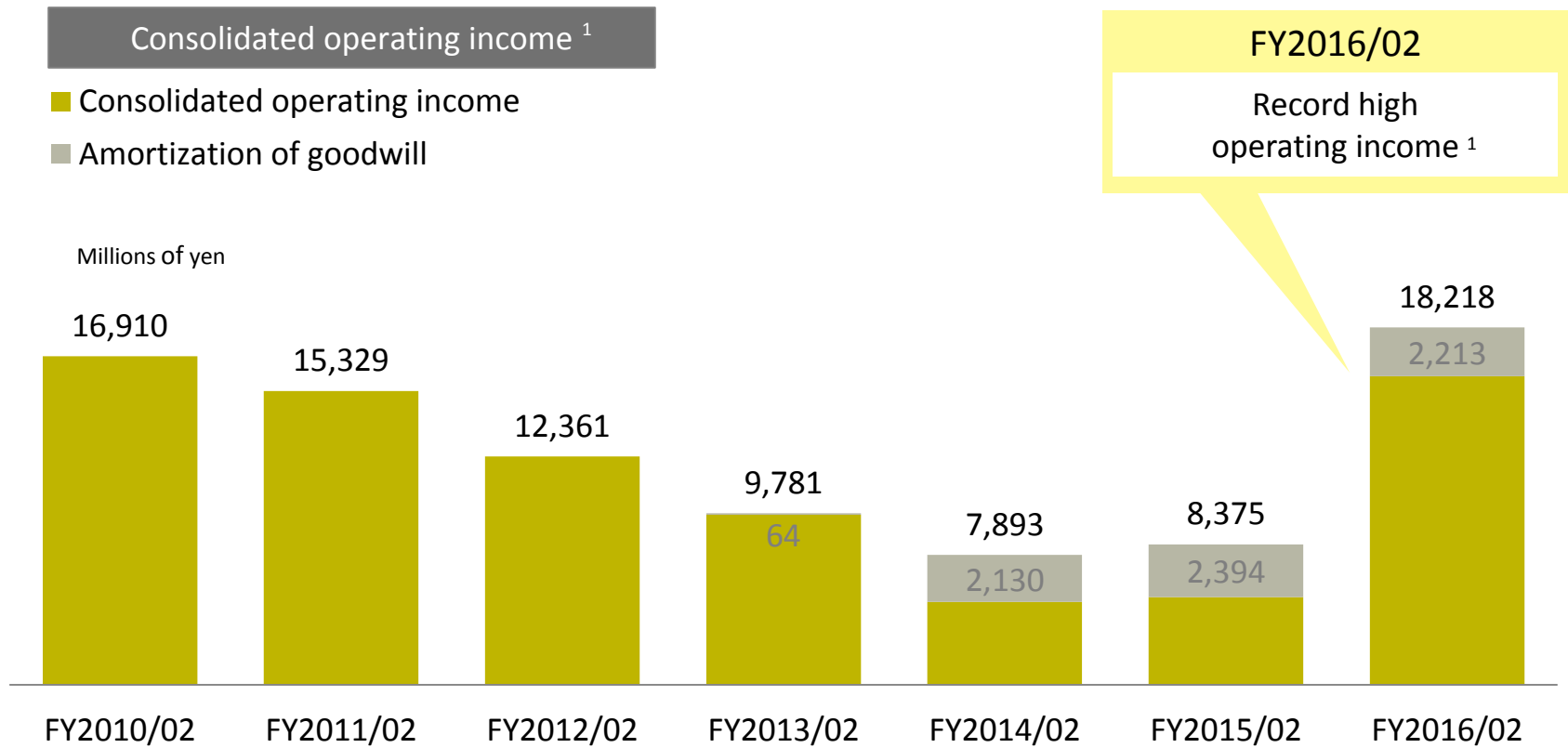


Change Phase

- Executed a serious of acquisitions in 2013:
- Gain the function of merchandise design/production
 - Expand customer base/category


Results of change phase

- The product design and quality has improved significantly
 - Achieved record high operating income in FY2016/02 ¹, five years after the change phase started



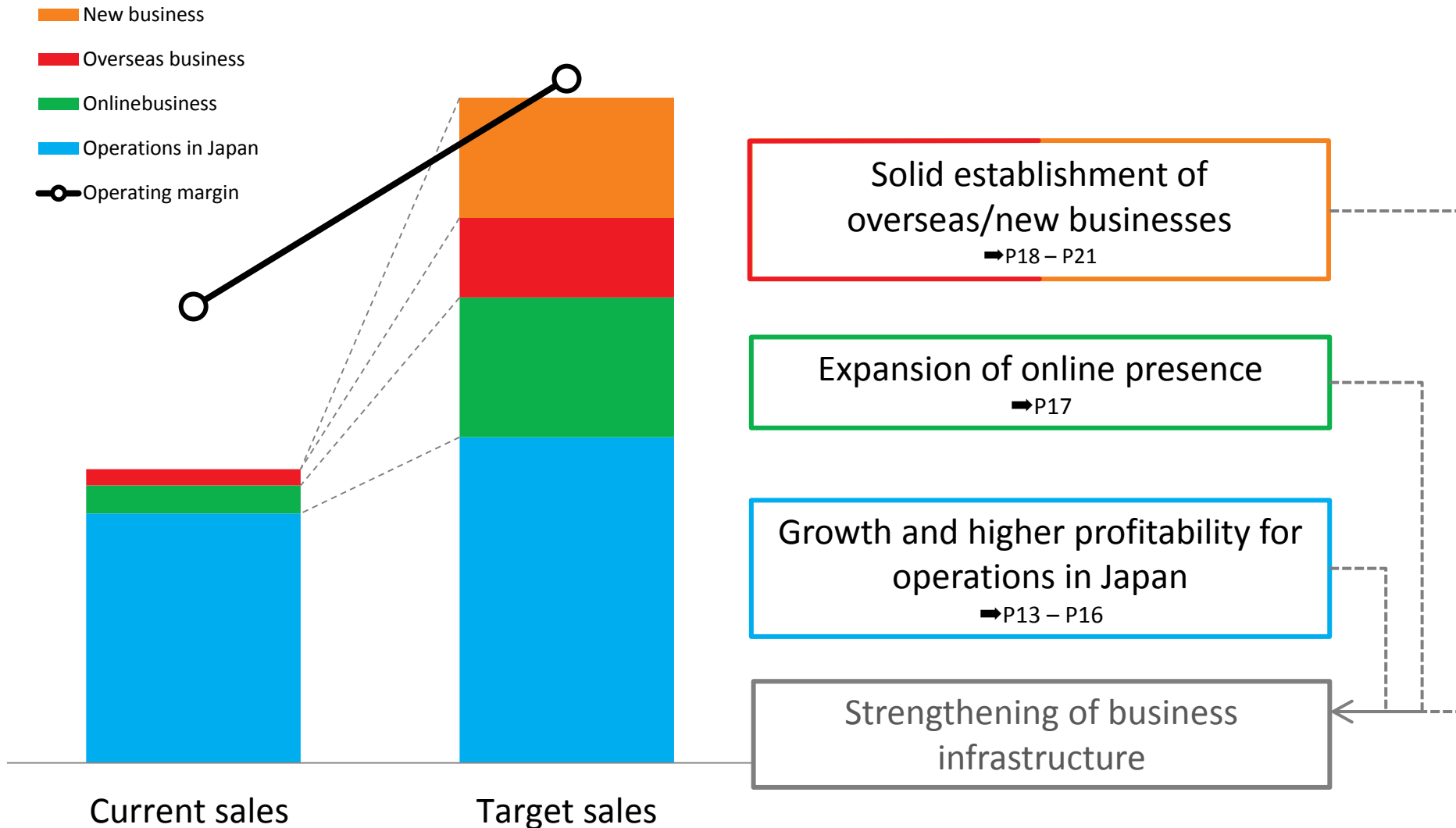
Note:

1. Operating income before amortization of goodwill



III. To become a leading global
multi-brand SPA company

The next stage of sales growth from 200 billion yen

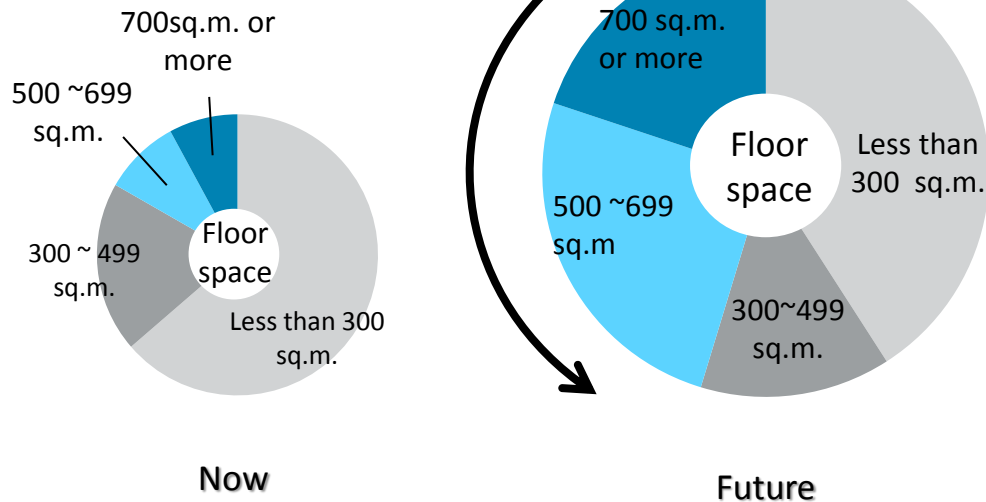


Operations in Japan

Store operations

- Alter store network composition to reflect business climate changes
 - Adapt changes in Japan's population and the increasing use of omni-channel retailing
- Open new stores; use scrap/build to switch to large store formats
(Priority is more floor space rather than more stores)
- Strengthen merchandising and store operations for overseas expansion of core brands

Conversion of store portfolio :
"Composition ratio of different size stores"



Operations in Japan

Production/merchandising strategy

■ “Process visualization”

- Reduce opportunity loss by improving delivery management and the speed of production adjustments

Target

Elimination of delivery delays

Speedy adjustment of production

Reduce inefficient ordering/procurement processes

Action

Visualize production/transport progress

Visualize production capacity and remaining fabric

Unify ordering/procurement system

Process

Ordering

Procurement & warehousing

Production & delivery

Material management

Capacity management

- Newly formed R&D division
- Reinforce specialty materials
- Consolidate and improve factories
- More ASEAN factories



Operations in Japan

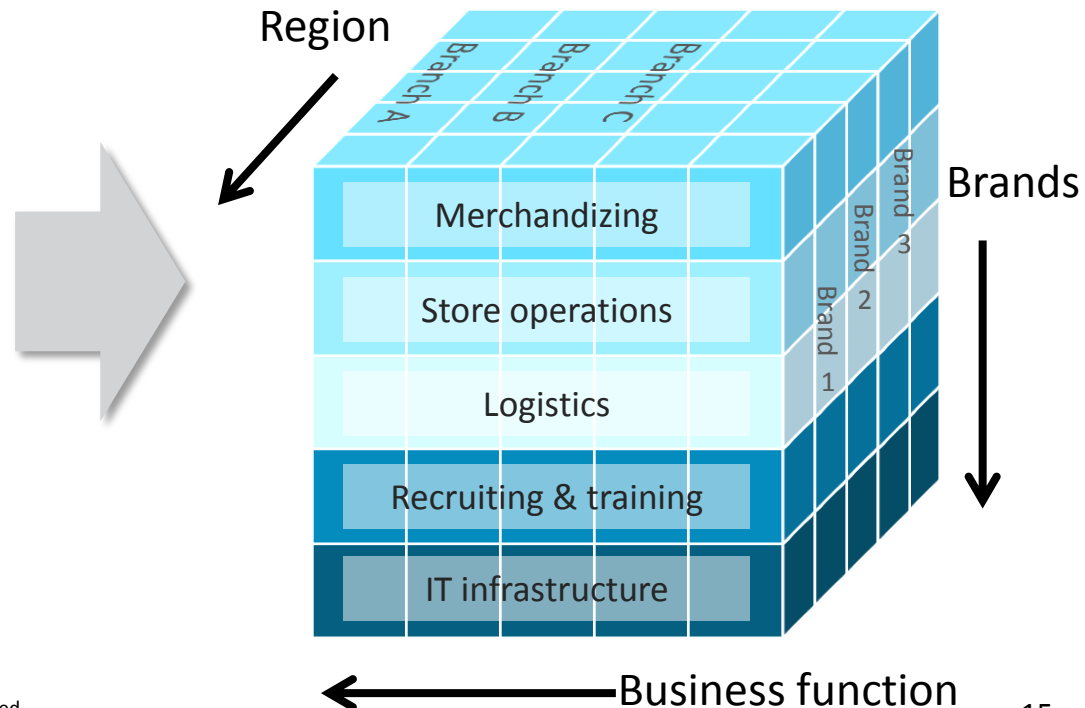
Strategy for operations

■ Reinforce “multi-brand platform”

- Integrate brand and business function with branch system to enhance the regional support
- Aggregate recruiting, training and none-selling operations by implementing branch system
- Stronger partner relationships and speedier crisis management at each branch
- Conducted trial phase in the Mito & Takasaki areas starting in April 2016
 - Opened the Kyushu branch in September 2016

Purposes of the branch system

- (1) Enhance regional support
- (2) Operate stores more efficiently
- (3) Reduce management cost
in the long run



Operations in Japan

BAYFLOW (Achieved 165.7% of net sales year on year in 1H of FY2017/02)

- BAYFLOW has grown into a 5 billion yen brand (annual sales) only three years after its spring 2014 launch.
- Everyday casual wear and household goods the grown-up fashion lovers.

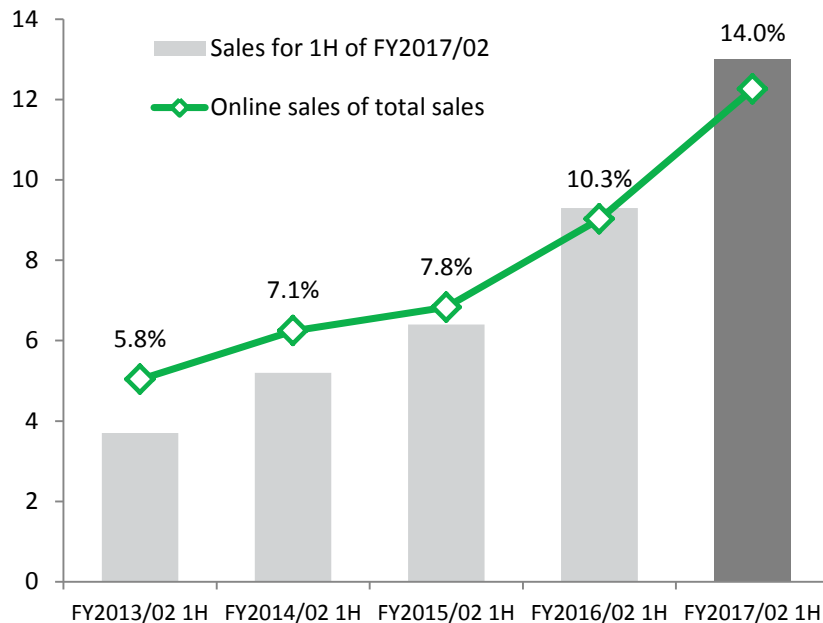


Online business

■ Maintaining stable growth

- Net sales: 13 billion yen (139.6% YoY)
- Online business ratio: 14.0%
- Members of company owned e-commerce website [.st]: approx. 5 million

Billions of yen



Note: FY2013/02 and FY2014/02 figures include TRINITY ARTS INC.

■ Develop action plan to grow online business

Defining our omni-channel services

- What is our goal for the customer engagement experience and what types of associated services will be required?

Constructing a global e-commerce infrastructure

- Provide multi-currency and multi-language support

Overseas business

■ Prepare for the next stage of growth

- Overseas subsidiaries will continue to be responsible for business development and operations based on their respective markets while increasing the sharing of know-how and other collaboration with brand headquarters in Japan.

Achieved profitability of niko and ... Korea ¹

- niko and ... brand headquarters in Japan started to oversee operations and revised merchandising to create a brand image with more originality.



Changed from promote specific items to recommend lifestyle ideas that consist with brand image in Japan



Note:

1. Achieved profitability on store basis (headquarter cost are excluded)
2. TMALL is a leading B2C online retail in China, owned by Aribaba group.

Strong start of TMALL online store ²

- Online business division in Japan leads the operations and utilizes the know-how gained in Japan while adjusting based on the local needs.



New business (Overseas)

■ Plans for North America

- The second-largest market after Greater China.
- Use minority investments in North American companies to establish industry network and acquire an operation know-how

■ Purchased 10% of Marine Layer in April 2016

- The Marine Layer brand sells California-style casual apparel.



New business (Japan)

- Launch new brand in March 2017

LAKOLE

Inspired by minimalism philosophy, “Just need this (pronounced KOLE in Japanese) and “Fun (pronounced LAKU in Japanese, therefore the new brand is named “LAKOLE.”

“KOLE” also means “Everyday is a good day” or “Each day is the best day with fresh aspects of life” in the Zen language. LAKOLE expresses the brand’s goal of providing merchandise that embodies fun and fresh ideas.

Store plan in the first year

Shopping malls: Around 10 stores

Standard store floor space: 500 sq.m.



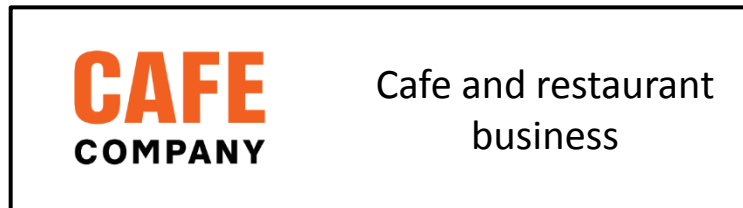
New business (Japan)

■ Establish JV with Cafe Company Inc.

- Create lifestyle business combining apparel and restaurant field



Chain-operation
Know-how



Seeds

New company

- To be established in November 2016
- Adastra Investment ratio: 49% maximum
- CEO: Shujiro Kusumoto
(President of Cafe Company Inc.)

Goal of the new company

- (1) Expand the WIRED business
- (2) Integrate restaurants with Adastra's apparel brands
- (3) Create new business domains and add value for customers.




Cafe Company's signature cafe chain, where music, art, culture, fashion, food, and people.



Brand that targeting to family customers and mainly located in suburban area, providing kids friendly space.

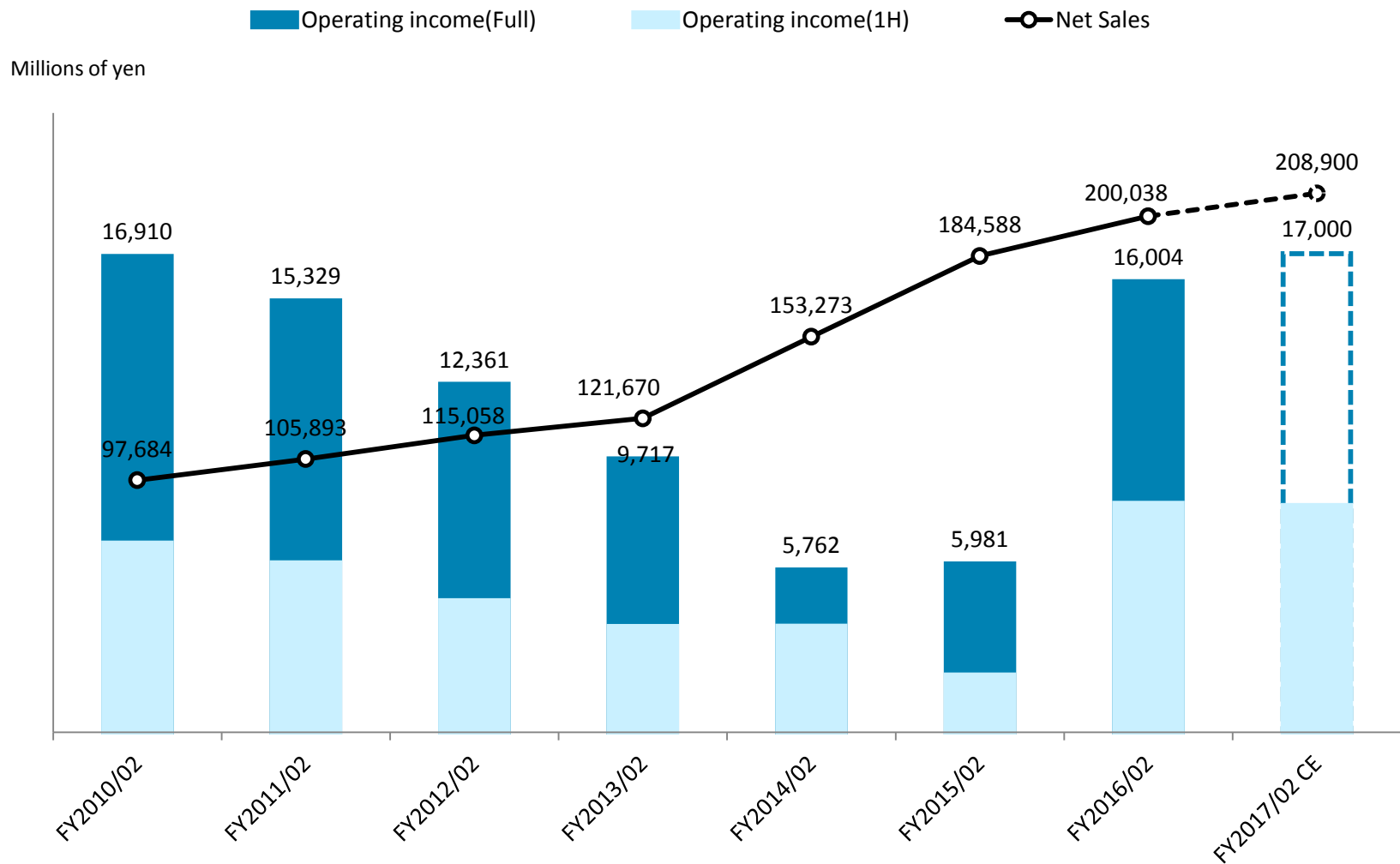
Progress of three year mid-term strategy

Three year mid-term strategy (FY2017/02~2019/02)		Status at 1H of FY2017/02	Going forward
Target number Existing business	Sales growth : 5% YoY Operating margin : 10%	Operating margin: 8.2% (Results for 1H of FY2017/02)	Operating margin: 8.1% (forecast for FY2017/02)
Strategy 1	Reinforce and evolve multi-brand strategy	<ul style="list-style-type: none"> • Kicked off corporate branding project • Started trial period of branch system • Decided to establish R&D department 	<ul style="list-style-type: none"> • Continue corporate branding project • Expand branch system • Enhance cross functional management for each brand
Strategy 2	Strengthen the core brands	<ul style="list-style-type: none"> • Increased lineup for Global Work for opening large stores expansion • Turnaround of niko and .. Korea 	<ul style="list-style-type: none"> • Open niko and ... large stores of niko and ...
Strategy 3	Create categories, brands and business sectors linked to ideas for new lifestyles	<ul style="list-style-type: none"> • Signed the agreement of establishing JV with Cafe Company Inc. • Launching new brand, "LAKOLE" 	<ul style="list-style-type: none"> • Kick off the JV business • Prepare to open the LAKORE stores
Strategy 4	Expand online business	<ul style="list-style-type: none"> • Planning for system upgrade for the global EC support and omni-channel service 	<ul style="list-style-type: none"> • Conduct requirement definition for new EC system
Strategy 5	Implement advanced technologies to build stronger and more efficient business infrastructure	<ul style="list-style-type: none"> • Designing backbone system to build stronger business infrastructure and global EC 	<ul style="list-style-type: none"> • Conduct requirement definition for backbone system

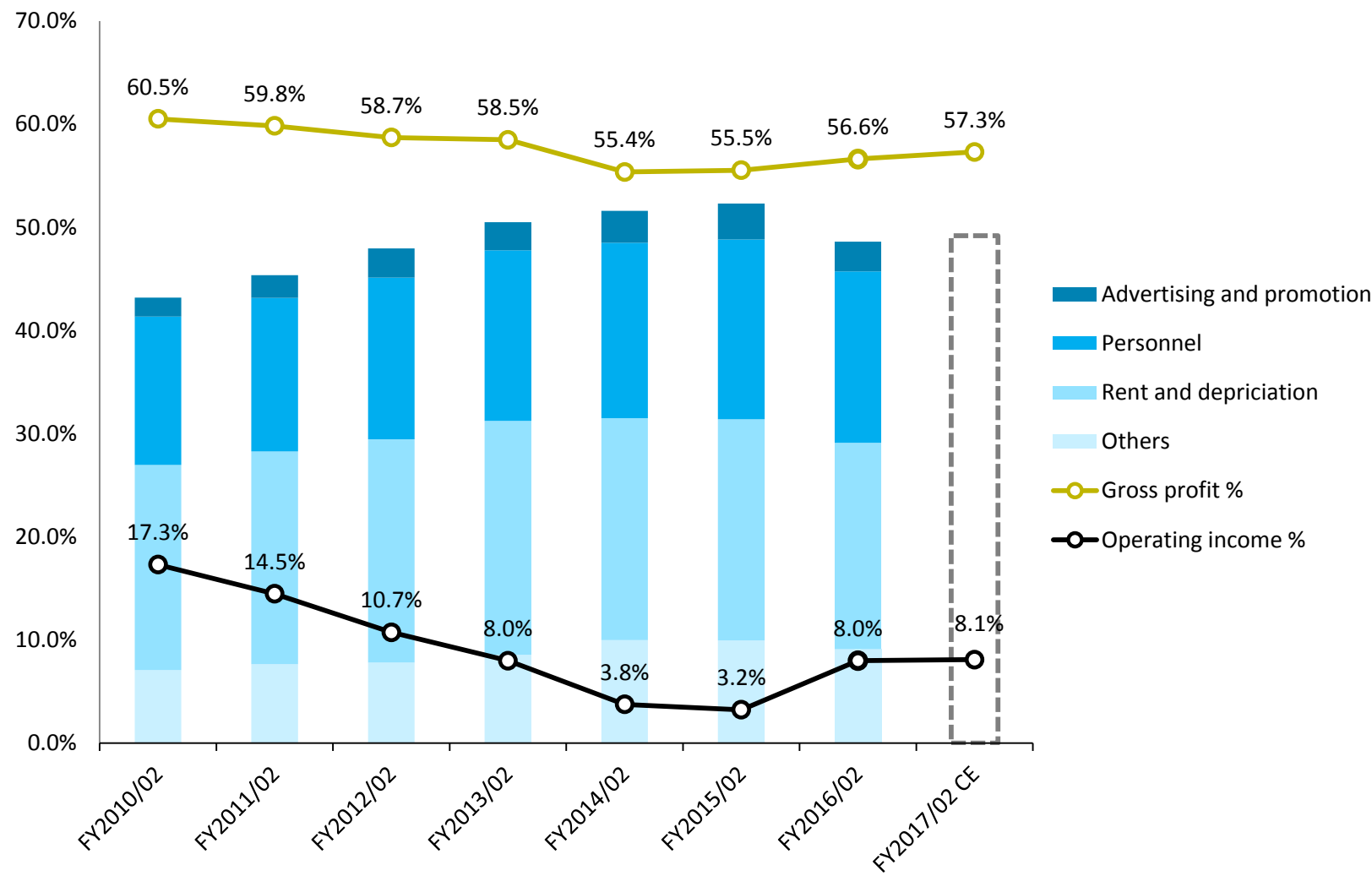


IV. Financial results and FY2017/02 forecast

Operating profit/Net sales

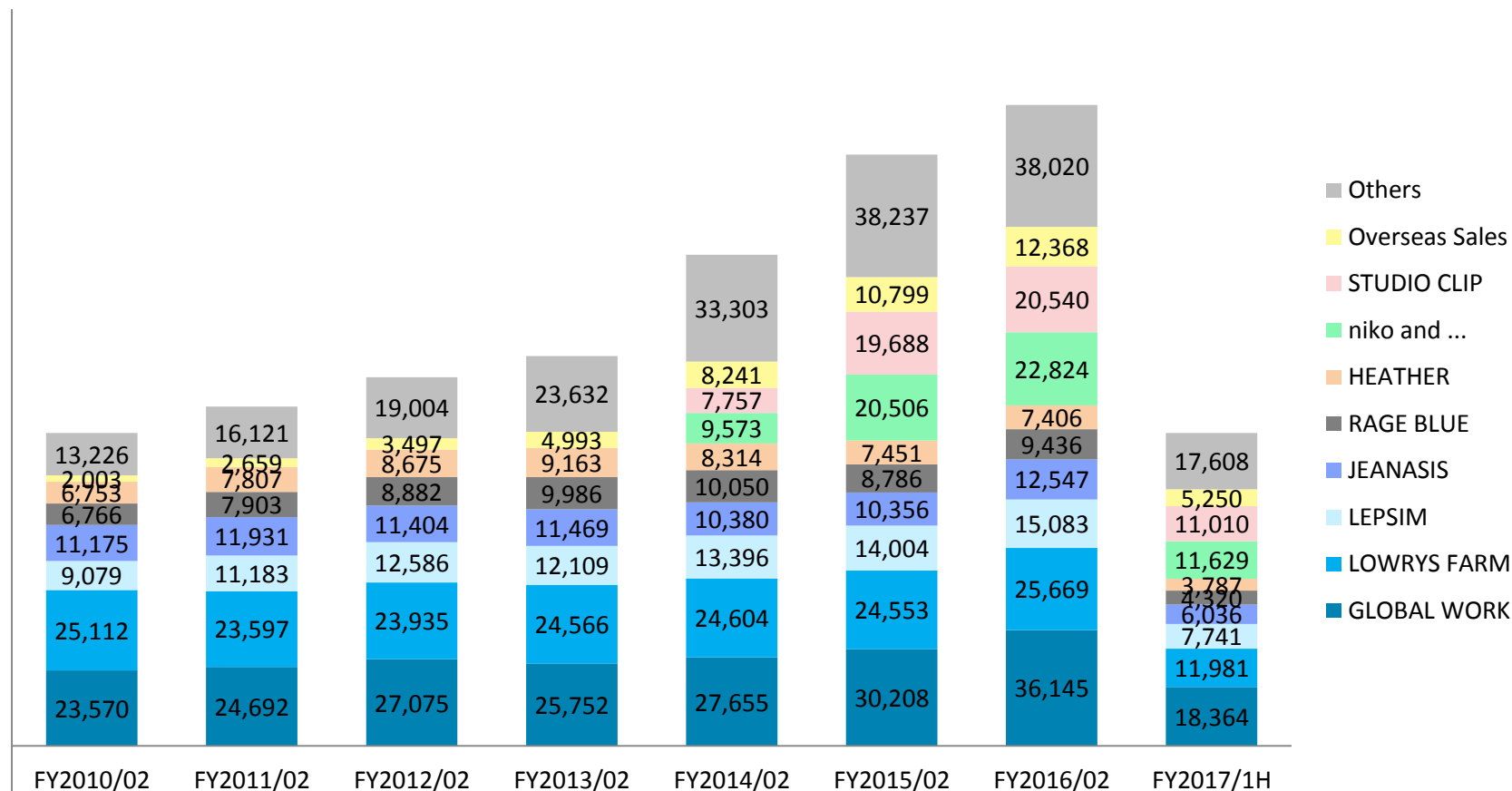


SG&A expenses



Net sales by brand

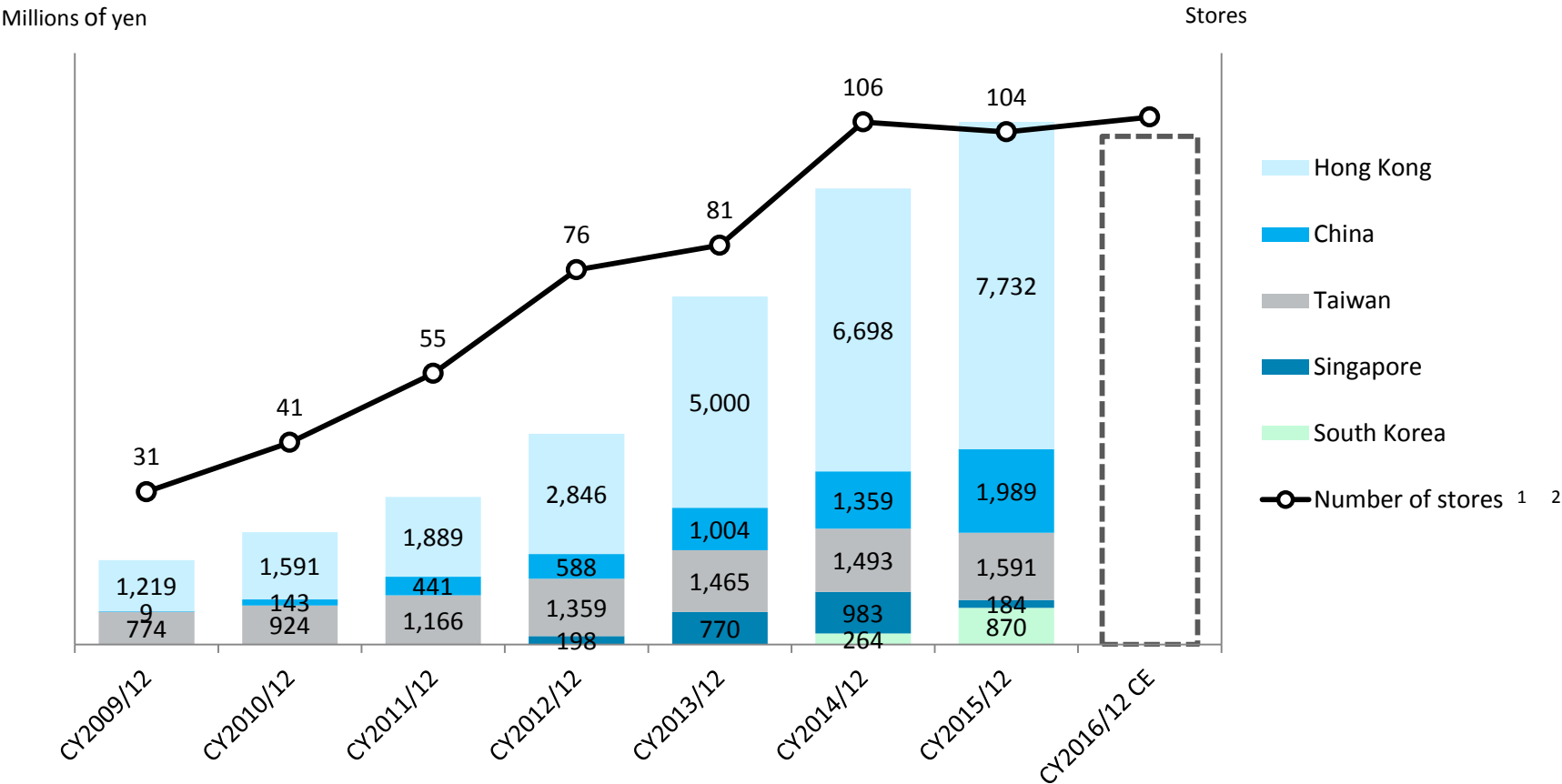
Millions of yen



Note:

1. TRINITY ARTS INC. became a consolidated subsidiary of Adastria Holdings Co.,Ltd. on September 1, 2013.
2. POINT INC., TRINITY ARTS INC and Adastria Holdings Co.,Ltd. were merged to become one company, Adastria Co., Ltd., from FY2016/02.
3. Brand name "LEPSIM LOWRYS FARM" was changed into "LEPSIM" from FY2017/02.
4. Sales are categorized by using brand sales divisions.

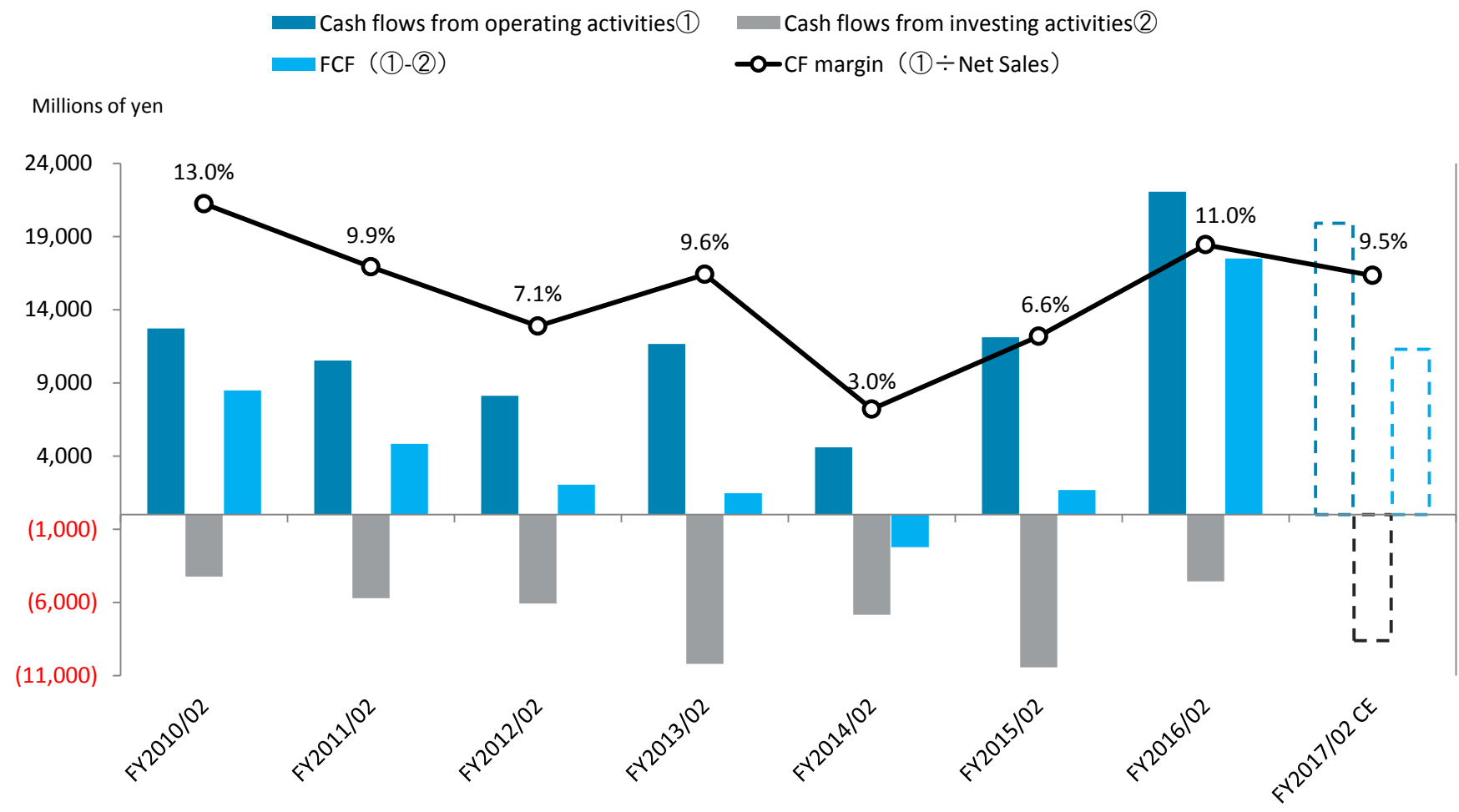
Overseas net sales and store count



Note:

1. LOWRYS FARM Cambodia (1 store as of June 30, 2016) is included in Hong Kong .
2. Distributor (23 stores as of June 30,2016) are included in China.

Cash flow



Return to shareholders

	FY2010/02	FY2011/02	FY2012/02	FY2013/02	FY2014/02	FY2015/02	FY2016/02	FY2017/02 (Forecast)
Dividend per share (Yen)	60	60	60	60	37.5	37.5	65	75
Interim dividend	(25)	(25)	(25)	(25)	(25)	(15)	(20)	(35)
Total dividend (MM yen)	2,919	2,879	2,851	2,679	1,697	1,821	3,138	3,563
Net profit (consolidated)	9,516	8,400	6,789	5,508	▲ 4,731	503	9,122	12,000
Amortization of goodwill	0	0	0	64	8,326	2,937	2,213	2,200
Dividend payout ratio (Amortization of goodwill excluded)	30.7%	34.5%	42.0%	49.7%	- (47.8%)	361.5% (52.9%)	34.5% (27.8%)	29.7% (25.1%)
Share repurchase (MM yen)	0	1,886	0	5,947	4,000	0	1,395	2,564

Note:

1. The number is adjusted based on the 2:1 stock split executed on March 1st, 2016.

- We use a consolidated payout ratio before goodwill amortization of 30% as the basic policy.
- We plan to pay year-end dividend of 75 yen per share for FY2017/02, which the forecast dividend payout ratio will be 25.1% based on earnings before goodwill amortization. Although this will be below the basic policy of 30%, ratio including the share repurchase of 2,564 million yen in October 2016 will be more than 40.0%.

Consolidated income statement

Millions of yen

Consolidated	FY2016/02 1H		FY2017/02 1H			
	Results		Initial forecast		Result	
		Ratio			Ratio	YoY
Net sales	97,032	100.0%	99,700	97,726	100.0%	100.7%
Gross profit	55,552	57.3%	-	56,545	57.9%	101.8%
SG&A expenses	47,419	48.9%	-	48,491	49.6%	102.3%
Advertising & promotion	2,703	2.8%	-	2,971	3.0%	109.9%
Personnel	16,500	17.0%	-	16,780	17.2%	101.7%
Rent & depreciation	19,446	20.0%	-	19,323	19.8%	99.4%
Amortization of goodwill	1,121	1.2%	-	1,092	1.1%	97.4%
Others	7,648	7.9%	-	8,323	8.5%	108.8%
Operating income	8,132	8.4%	8,100	8,054	8.2%	99.0%
Adastria(Non-consolidated, Amortization of goodwill excluded)	8,996	-	-	8,920	-	99.2%
Overseas business	▲ 218	-	-	▲ 334	-	-
N9&PG	▲ 190	-	-	-	-	-
Adastria Logistics	-	-	-	361	-	-
Ordinary income	8,324	8.6%	8,200	8,050	8.2%	96.7%
Net income	4,156	4.3%	4,500	4,848	5.0%	116.6%
EBITDA	12,272	12.6%	11,900	11,903	12.2%	97.0%
Depreciation and amortization	3,019	3.1%	2,700	2,757	2.8%	91.3%
Amortization of goodwill	1,121	1.2%	1,100	1,092	1.1%	97.4%
Capital expenditure	2,844			3,140		

Note:

1. The results of production division is not included in the results for first half of the fiscal year 2016/02.
2. Overseas business is the sum of five overseas subsidiaries: Hong Kong, Taiwan, China, Singapore, Korea.
3. N9&PG's production division was merged into Adastria Co., Ltd ; its logistics division become Adastria Logistics Co., Ltd. from second half of the fiscal year 2016/02.

Consolidated balance sheet

Millions of yen

Consolidated	End of 2015/8		End of 2016/2		End of 2016/8			
		Ratio		Ratio		Ratio	YoY	Compared with the end of 2016/2
Current assets	38,421	44.0%	45,465	50.3%	44,227	50.8%	+5,806	▲ 1,237
Cash and deposits	12,401	14.2%	19,460	21.5%	16,211	18.6%	+3,810	▲ 3,249
Inventories	13,855	15.9%	15,076	16.7%	16,707	19.2%	+2,851	+1,630
Fixed assets	48,975	56.0%	44,988	49.7%	42,775	49.2%	▲ 6,200	▲ 2,213
Property, plant and equipment	12,072	13.8%	11,215	12.4%	10,913	12.5%	▲ 1,158	▲ 301
Goodwill	6,585	7.5%	5,493	6.1%	4,401	5.1%	▲ 2,184	▲ 1,092
Investments and other assets	28,823	33.0%	26,807	29.6%	25,819	29.7%	▲ 3,003	▲ 988
Total assets	87,397	100.0%	90,454	100.0%	87,003	100.0%	▲ 393	▲ 3,451
Liabilities	34,955	40.0%	37,171	41.1%	32,460	37.3%	▲ 2,494	▲ 4,711
Interest-bearing debt	1,973	2.3%	1,867	2.1%	1,591	1.8%	▲ 382	▲ 276
Net assets	52,442	60.0%	53,282	58.9%	54,543	62.7%	+2,100	+1,260
Treasury stocks	▲ 415	-0.5%	▲ 1,824	-2.0%	▲ 2,077	-2.4%	▲ 1,662	-253

FY2017/02 forecast (Consolidated)

Millions of yen

Consolidated	FY2016/02	FY2017/02 1H			FY2017/02			
	Results	Initial forecast	Results		Initial forecast	Revised forecast		
				YoY			Ratio	YoY
Net sales	200,038	99,700	97,726	100.7%	208,900	208,900	100.0%	104.4%
Operating income	16,004	8,100	8,054	99.0%	17,000	17,000	8.1%	106.2%
Ordinary income	16,185	8,200	8,050	96.7%	17,300	17,300	8.3%	106.9%
Net income	9,122	4,500	4,848	116.6%	10,000	12,000	5.7%	131.5%
ROE	18.3%	-	-	-	17.7%	21.3%	-	+3.0p

EBITDA	24,612	11,900	11,903	97.0%	24,900	24,900	11.9%	101.2%
Depreciation & Amortization	6,394	2,700	2,757	91.3%	5,700	5,700	2.7%	89.1%
Amortization of goodwill	2,213	1,100	1,092	97.4%	2,200	2,200	1.1%	99.4%

Capital expenditure	6,364
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8,600	8,600
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■ Revised forecast for FY2017/02 :

- Net sales, operating income, and ordinary income remains the same with the initial forecast.
- Net income is revised from 10,000 to 12,000 millions of yen because roughly 2 billion yen after-tax gain on sales of investment securities will be recorded in extraordinary income.

Appendix: Stock Information

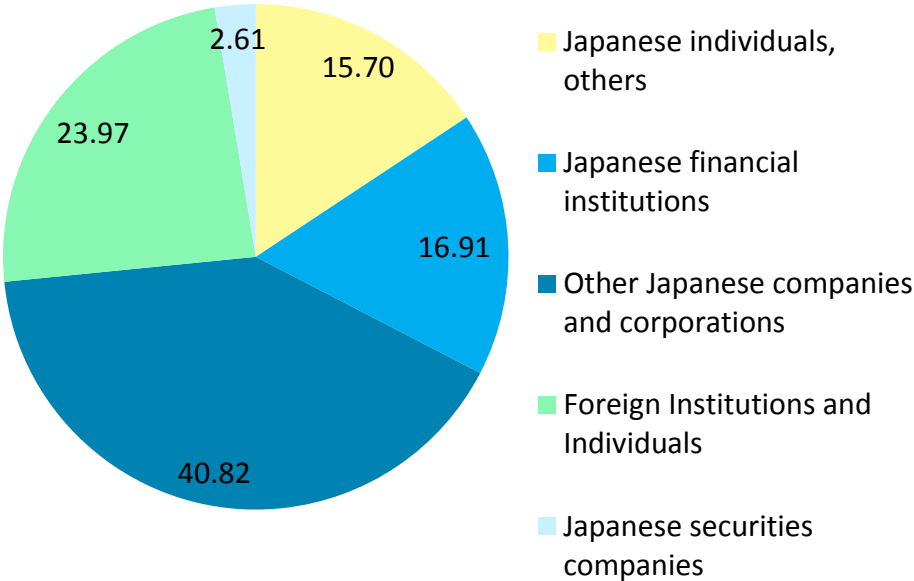
As the end of August, 2016

Basic Information

Number of Shareholders
17,242

Issued Shares
48,800,000 (including treasury stock: 91,605)

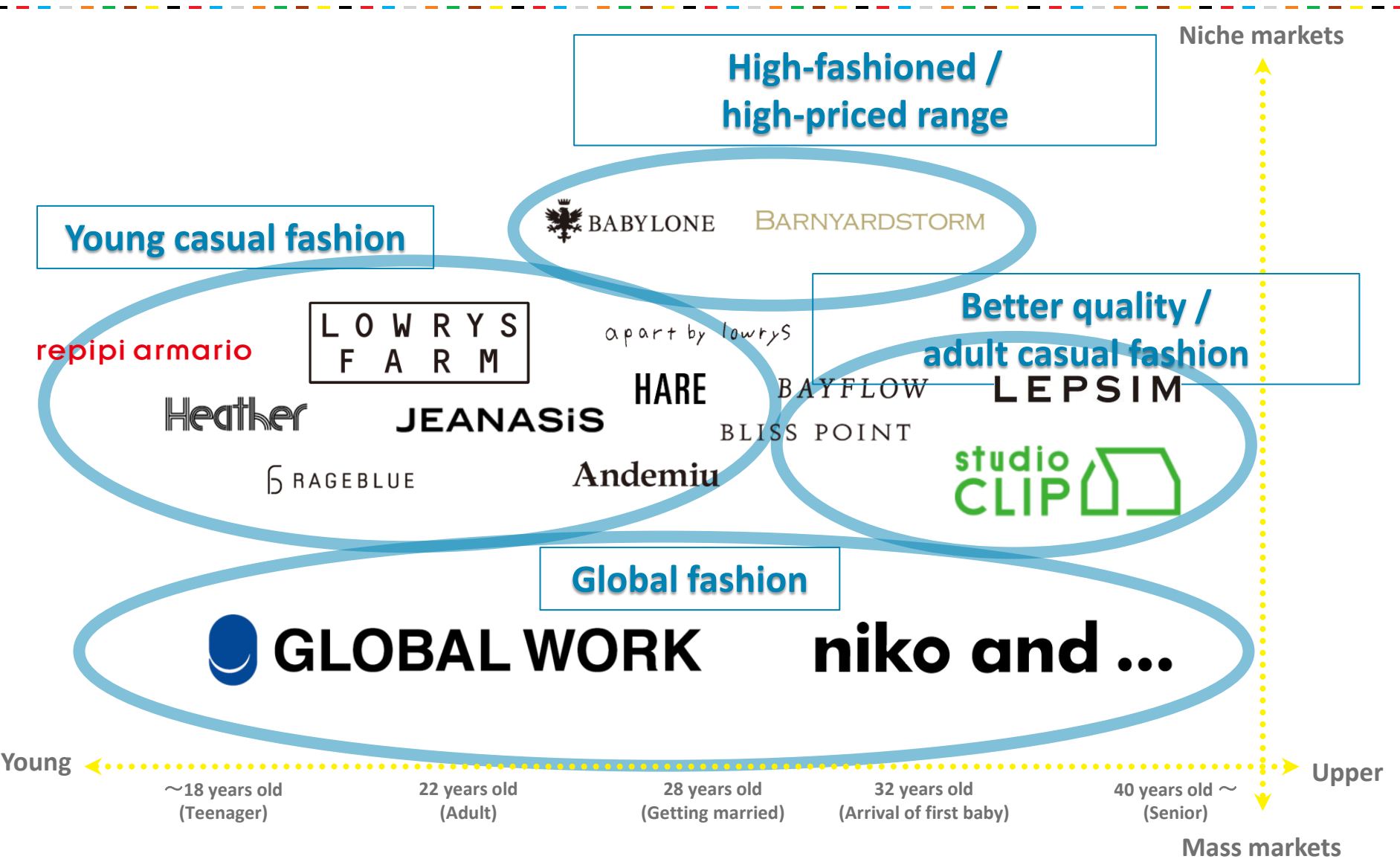
Shareholders Distribution (%)



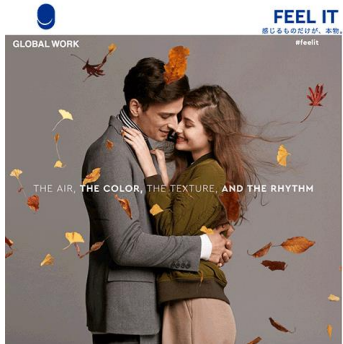
Note:

- 1. Treasury stocks are included in “Japanese individuals, others.”
- 2. Shares of Employee Stock Ownership Plan and Board Incentive Plan are included under “Financial institutions.”

Appendix: Current brand positions



Appendix: GLOBAL WORK



GLOBAL WORK

Target	Men and women from 20s to 30s, and kids from 2 to 6
Major channel	Shopping centers
Stand floor space	495 sq.m
Store count	Japan : 184 (as of Feb,2016) Overseas: 11 (as of Dec,2015)
Net sales	JPY 36,125 MM (FY 2016/02)

Appendix: niko and...



niko and ...

Target	Men and women from 25 to 35
Major channel	Shopping centers, Fashion-business malls
Stand floor space	264 sq.m to 825 sq.m
Store count	Japan : 123 (as of Feb,2016) Overseas: 15 (as of Dec,2015)
Net sales	JPY 22,824 MM (FY 2016/02)

A D A S T R I A
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