Summary of Consolidated Financial Results for the First Quarter of the Fiscal Year Ending February 28, 2023 (Three Months Ended May 31, 2022)

[Japanese GAAP]

July 8, 2022

Company name:	Adastria Co., Ltd.	Listing: Tokyo Stock Exchange
Stock code:	2685	URL: https://www.adastria.co.jp
Representative:	Osamu Kimura, Representative Director and President	
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Scheduled date of filing of Quarterly Report:	July 15, 2022
Scheduled date of payment of dividend:	-
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 July 8, 2022 at 15:30 (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 28, 2023 (March 1, 2022 – May 31, 2022)

(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, 2022	58,006	25.0	4,574	632.1	4,926	412.5	3,313	-
Three months ended May 31, 2021	46,387	39.4	624	-	961	-	269	-

Note: Comprehensive income Three months ended May 31, 2022: 3,988 million yen (up 846.2%)
Three months ended May 31, 2021: 421 million yen (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended May 31, 2022	73.24	-
Three months ended May 31, 2021	5.98	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of May 31, 2022	107,118	57,684	52.8
As of Feb. 28, 2022	97,957	54,963	55.1

Reference: Shareholders' equity As of May 31, 2022: 56,514 million yen As of Feb. 28, 2022: 53,963 million yen

Note: At the end of the previous fiscal year, the provisional accounting treatment for the business combination was finalized, and, for the fiscal year ended February 2022, the initial allocation of acquisition costs due to the provisional finalization of accounting treatment was significantly revised. The reported amounts reflect these changes.

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Feb. 28, 2022	-	25.00	-	30.00	55.00
Fiscal year ending Feb. 28, 2023	-				
Fiscal year ending Feb. 28, 2023 (forecast)		25.00	-	30.00	55.00

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

3. Consolidated Forecast for the Fiscal Year Ending February 28, 2023 (March 1, 2022 – February 28, 2023)

(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	230,000	14.1	10,000	52.3	10,000	22.5	6,300	28.1	139.23

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

*** 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: Yes

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, 2022:	48,800,000 shares	As of Feb. 28, 2022:	48,800,000 shares

2) Number of treasury shares at the end of the period

As of May 31, 2022:	3,484,393 shares	As of Feb. 28, 2022:	3,552,459 shares

3) Average number of shares outstanding during the period

Three months ended May 31, 2022:	45,244,312 shares	Three months ended May 31, 2021:	45,176,442 shares

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.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

Consolidated results (Million yen)

	First three months of FY2/22 (Mar. 1, 2021 – May 31, 2021)	First three months of FY2/23 (Mar. 1, 2022 – May 31, 2022)	YoY change (Amount)	YoY change (%)
Net sales	46,387	58,006	11,619	25.0
Operating profit	624	4,574	3,949	632.1
Ordinary profit	961	4,926	3,965	412.5
Net income attributable to owners of the parent	269	3,313	3,043	1,127.5

The spread of the COVID-19 pandemic stabilized in the first quarter (March 1 – May 31, 2022). As restrictions on the movement of people were eased there was more flow of people and normalization of personal consumption. On the other hand, the economic outlook remained uncertain due to the rapid depreciation of the yen and soaring resource and energy prices caused by the Russia-Ukraine crisis.

Given these circumstances, the Group has formulated and promoted the following growth strategies in its medium-term management plan.

Growth Strategy I	Multi-Brand, Multi-Category	Grouping of brands according to roles for improved profitability and growth
Growth Strategy II	Digital Customer Interactions and Services	Accelerate growth of our EC site and create a fun EC community
Growth Strategy III	Glocal	Develop models in Mainland China and cultivate Southeast Asia
Growth Strategy IV	New Business	Establish a food and beverage business and create new appeal

Consolidated net sales increased 25.0% year-on-year to 58,006 million yen, operating profit increased 632.1% to 4,574 million yen, ordinary profit increased 412.5% to 4,926 million yen, and net income attributable to owners of the parent increased 1,127.5% to 3,313 million yen.

As a result of Zetton, Inc. becoming a consolidated subsidiary in February 2022, from the first quarter of the current fiscal year, the Company started reporting the Apparel and Sundry Goods-related Business and Other (food and beverage business) as separate segments.

Domestic sales in the Apparel and Sundry Goods-related business segment were boosted by improved shop operating conditions as the impact of the COVID-19 pandemic eased, as well as by strong sales of spring and summer products due to rising temperatures, product development in response to increased demand for outings after the easing of restrictions on movement of people, and promotional measures such as TV commercials and point redemption. As a result, sales were up 20.2% year-on-year.

In the Other segment, the consolidation of Zetton, Inc., which operates a food and beverage business in line with the growth strategy, contributed to the growth in sales.

As a part of our digital strategy, TV commercials and other initiatives were launched to attract customers and increase awareness of Adastria’s e-commerce site “.st”. As a result, number of members of the company's e-commerce site increased to 14.1 million, a gain of 500,000 compared to the end of the previous fiscal year. Supported also by recovery of demand at brick-and-mortar shops e-commerce sales increased 0.9% year-on-year.

In Mainland China the Company has been opening new stores, adding 4 stores from one year earlier to a total of 7 shops. Sales increased by 28.0% in Mainland China due to the contribution of new shops. In Taiwan, where the impact of the COVID-19 pandemic was less severe, sales rose by 28.1%, while in the United States, sales rose by 59.8% thanks to the benefits of strong demand and growth in e-commerce. In Hong Kong, sales fell by 9.7% due to the spread of the COVID-19 pandemic. As a result, total overseas sales were up 29.9% and overseas business was profitable in the first quarter.

Despite the depreciation of the yen and rising raw material price, the gross profit margin of the Apparel and

Sundry Goods-related Business was largely unchanged from the same period in the previous fiscal year because we supplying the products at the right times, prices and volumes, held down discount sales, and increased the added value of products. In addition, as the share of the food and beverage business increased due to the conversion of Zetton, Inc. into a consolidated subsidiary, the gross profit margin increased 0.5 percentage points from the same period in the previous fiscal year to 57.4%.

Selling, general, and administrative expenses, personnel expenses, and store leasing expenses, which had been suppressed due to store closures and shortened business hours in the previous fiscal year increased, but sales recovered, and business operations became more efficient. Accordingly, the SG&A to sales ratio improved by 6.0 percentage points from the same period of the previous year to 49.5%, and operating profit significantly by 632.1%.

In addition, non-operating income included a subsidy of 129 million yen related to shortened operating hours caused by the pandemic and employment adjustment subsidies of 50 million yen, as well as a foreign exchange gains of 274 million yen. On the other hand, a loss on valuation of derivatives related to the withdrawal from the South Korean business of 106 million yen was recorded as non-operating expenses.

Business segment performance was as follows.

1) Apparel and Sundry Goods-related Business

As a result of the above, sales were 55,945 million yen and segment profit was 4,848 million yen.

We opened 32 stores (including 8 overseas) and closed 18 stores (including 1 overseas), resulting in a total of 1,437 stores (including 80 overseas) at the end of the first quarter of the fiscal year.

2) Other (food and beverage business)

Sales were 2,070 million yen and segment profit was 78million yen.

The number of stores at the end of the first quarter was 79, a result of the increase of 73 stores due to the acquisition of Zetton, Inc. as a consolidated subsidiary at the end of the previous fiscal year and 1 new store opening.

(2) Explanation of Financial Position

Total assets increased 9,161 million yen from as of February 28, 2022 to 107,118 million yen as of May 31, 2022. There were increases of 5,058 million yen in notes and accounts receivable-trade, 3,257 million yen in other, net under property, plant and equipment, partly because of right-of-use assets, etc., resulting from the application of the new lease accounting standard (ASC No. 842), etc., by the U.S. subsidiary, and 803 million yen in goodwill.

Liabilities increased 6,440 million yen to 49,434 million yen. The provision of point card certificates decreased by 1,620 million yen due to the application of the accounting standard for revenue recognition, but there were increases of 3,155 million yen in short-term borrowings, 2,173 million yen in accounts payable-other, and 2,344 million yen in other under current liabilities, including contract liabilities arising from the adoption of the revenue recognition accounting standard and lease liabilities resulting from the application of the new lease accounting standard (ASC No. 842) by the U.S. subsidiary, etc.

Net assets increased 2,720 million yen to 57,684 million yen. This was mainly due to a decrease of 240 million yen in treasury shares (increase in net assets), and an increase of 1,768 million yen in retained earnings.

(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 13, 2022.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	FY2/22 (As of Feb. 28, 2022)	First quarter of FY2/23 (As of May 31, 2022)
Assets		
Current assets		
Cash and deposits	16,976	17,045
Notes and accounts receivable-trade	9,878	14,936
Inventories	19,259	19,095
Other	2,126	2,756
Allowance for doubtful accounts	(71)	(117)
Total current assets	48,169	53,715
Non-current assets		
Property, plant and equipment		
Store interior equipment, net	4,404	5,144
Other, net	11,600	14,857
Total property, plant and equipment	16,005	20,002
Intangible assets		
Goodwill	922	1,726
Other	9,914	9,950
Total intangible assets	10,836	11,676
Investments and other assets		
Investment securities	1,003	1,065
Leasehold and guarantee deposits	15,426	14,040
Other	6,866	6,969
Allowance for doubtful accounts	(351)	(351)
Total investments and other assets	22,945	21,724
Total non-current assets	49,787	53,402
Total assets	97,957	107,118
Liabilities		
Current liabilities		
Notes and accounts payable-trade	11,282	11,089
Electronically recorded obligations-operating	6,620	7,133
Short-term borrowings	95	3,250
Current portion of long-term borrowings	455	405
Accounts payable-other	10,449	12,623
Income taxes payable	3,247	2,093
Provision for bonuses	2,179	1,175
Provision for point card certificates	1,728	108
Other provisions	446	506
Other	1,910	4,255
Total current liabilities	38,416	42,639
Non-current liabilities		
Long-term borrowings	896	893
Provisions	322	200
Other	3,358	5,701
Total non-current liabilities	4,577	6,794
Total liabilities	42,994	49,434

(Million yen)

	FY2/22 (As of Feb. 28, 2022)	First quarter of FY2/23 (As of May 31, 2022)
Net assets		
Shareholders' equity		
Share capital	2,660	2,660
Capital surplus	7,213	7,213
Retained earnings	51,114	52,882
Treasury shares	(7,636)	(7,395)
Total shareholders' equity	53,351	55,360
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8	53
Deferred gains or losses on hedges	45	418
Foreign currency translation adjustment	558	682
Total accumulated other comprehensive income	611	1,154
Non-controlling interests	1,000	1,169
Total net assets	54,963	57,684
Total liabilities and net assets	97,957	107,118

(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 FY2/22 (Mar. 1, 2021 – May 31, 2021)	First three months of FY2/23 (Mar. 1, 2022 – May 31, 2022)
Net sales	46,387	58,006
Cost of sales	20,005	24,703
Gross profit	26,382	33,303
Selling, general and administrative expenses	25,757	28,729
Operating profit	624	4,574
Non-operating income		
Foreign exchange gains	156	274
Subsidy income	65	129
Subsidies for employment adjustment	118	50
Other	122	65
Total non-operating income	462	520
Non-operating expenses		
Interest expenses	35	38
Loss on valuation of derivatives	70	106
Other	20	24
Total non-operating expenses	126	168
Ordinary profit	961	4,926
Extraordinary income		
Gain on liquidation of subsidiaries and associates	81	-
Total extraordinary income	81	-
Extraordinary losses		
Impairment loss	127	3
Total extraordinary losses	127	3
Net income before income taxes	915	4,922
Income taxes-current	661	1,701
Income taxes-deferred	(15)	(228)
Total income taxes	645	1,472
Net income	269	3,450
Net income attributable to non-controlling interests	-	136
Net income attributable to owners of the parent	269	3,313

Quarterly Consolidated Statement of Comprehensive Income

(For the Three-month Period)

(Million yen)

	First three months of FY2/22 (Mar. 1, 2021 – May 31, 2021)	First three months of FY2/23 (Mar. 1, 2022 – May 31, 2022)
Net income	269	3,450
Other comprehensive income		
Valuation difference on available-for-sale securities	2	45
Deferred gains or losses on hedges	(8)	372
Foreign currency translation adjustment	158	120
Total other comprehensive income	151	538
Comprehensive income	421	3,988
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	421	3,819
Comprehensive income attributable to non-controlling interests	-	169

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in the Scope of Consolidation or Application of the Equity Method

Important changes in the scope of consolidation

Following the acquisition of shares in OPEN AND NATURAL Inc. through the Company's consolidated subsidiary BUZZWIT Co., Ltd. on March 31, 2022, OPEN AND NATURAL became a consolidated subsidiary (sub-subsidiary) from the first quarter of the current fiscal year. However, only the balance sheet of OPEN AND NATURAL was included in the consolidation as the deemed acquisition date was April 30, 2022 and the period to date of the closure of quarterly consolidated accounts did not exceed three months.

Changes in Accounting Policies

Application of Accounting Standards for Revenue Recognition

The Company has applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter of the current fiscal year. Based on these standards, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers. In prior years, to prepare for the redemption of the points granted on sales to customers, the Group recorded a provision for point card certificates in an amount that reflects the performance of obligation related to the expected redemption of points in the future. The Company has changed to a method that recognizes the points granted as performance obligations, allocates the transaction price, and records it as contract liability.

The application of the Accounting Standard for Revenue Recognition is pursuant to the transitional treatment set forth in the proviso of Paragraph 84 of this standard. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter of the current fiscal year, was added to or subtracted from retained earnings at the beginning of the first quarter of the current fiscal year, and then the new accounting policy was applied beginning with this amount of retained earnings.

As a result, compared with the previous accounting method, the application of the new standard resulted in reductions of 637 million yen in sales, 31 million yen in cost of sales, 605 million yen in selling, general and administrative expenses. However, there were no effect on operating profit, ordinary profit and net income attributable to owners of the parent. In addition, the new standard reduced retained earnings at the beginning of the first quarter by 114 million yen.

In accordance with the transitional treatment set forth in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, reclassification based on the new presentation method has not been carried out for the previous fiscal year.

Changes in valuation of inventories

The Company previously valued its merchandise mainly at cost based on the specific identification method (the amount shown on the balance sheet was calculated by writing down the book value based on a decline in profitability). However, from the first quarter of the current fiscal year, the cost method has been changed to a cost method mainly based on the weighted average method (the value on the balance sheet is calculated by writing down the book value based on a decline in profitability).

The valuation method was changed in view of further globalization of the Group's business and taking the opportunity of upgrade of its backbone IT system.

The effect of this change is insignificant.

Accounting for leases: Application of ASC No. 842 [Leases]

Foreign subsidiaries, that have adopted the U.S. accounting standards, have started applying US GAAP ASC No. 842, Leases (ASC No. 842) standard from the first quarter of the current fiscal year. The cumulative effect of the adoption of ASC No. 842 is recognized at the date of adoption and is an adjustment to retained earnings and lease liabilities related to the right-of-use assets at the beginning of the first quarter of the current fiscal year.

The effect of this change on profit in the first quarter of the current fiscal year is insignificant.

Application of the Accounting Standard for Measurement of Fair Value

The Company has applied the Accounting Standard for Measurement of Fair Value, etc. (ASBJ Statement No. 30, July 4, 2019) from the beginning of the first quarter of the current fiscal year, and has applied the new accounting policies set forth by the Accounting Standard for Measurement of Fair Value, etc. prospectively in accordance with the transitional treatment in Paragraph 19 of the Accounting Standard for Measurement of Fair Value and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). There is no effect of the application of these standards on the quarterly consolidated financial statements.

Segment Information

I. First three months of FY2/22 (Mar. 1, 2021 – May 31, 2021)

The Adastria Group has only a single business segment, which is the planning and sales of clothing and related merchandise. There is no others segment because the levels of sales and earnings of other activities are insignificant.

II. First three months of FY2/23 (Mar. 1, 2022 – May 31, 2022)

1. Information related to net sales and profit or loss for each reportable segment

(Million yen)

	Reportable segment	Other (Note 1)	Total	Adjustment (Note 2)	Amounts shown on quarterly consolidated statement of income (Note 3)
	Apparel and Sundry Goods-related Business				
Net sales					
External sales	55,945	2,061	58,006	-	58,006
Inter-segment sales and transfers	0	9	9	(9)	-
Total	55,945	2,070	58,016	(9)	58,006
Segment profit	4,848	78	4,926	-	4,926

Notes: 1. “Other” represents the businesses which are not included in the reportable segment and mainly consists of food and beverage business.

2. The amount of adjustment to segment profit is an adjustment to unrealised profit related to inter-segment transactions.
3. The segment profit is consistent with the ordinary profit of the Quarterly Consolidated Statement of Income.
4. The segment profit includes corporate expenses that are allocated to each reportable segment.

2. Information related to revisions for reportable segments

In prior years, there was no segment information because the Adastria Group had only the single reportable segment of planning and sales of clothing and related merchandise. There was no “other” segment because this information was immaterial. Beginning with the first quarter of the fiscal year ending in February 2023, segment information is presented because the importance of the food and beverage business within the Adastria Group has increased.

Segment information for the first quarter of the previous fiscal year that was prepared by using the same segment classification method used for the first quarter of the current fiscal year is not presented because activities other than the planning and sales of clothing and related merchandise is immaterial.

In the previous fiscal year, the planning and sales of clothing and related material was the only significant segment. As a result, segment information prepared by using the same segment classification method used for the first quarter of the previous fiscal year is not presented.

3. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

Impairment losses related to non-current assets

Not applicable.

Significant change in goodwill

Following the acquisition of shares in OPEN AND NATURAL Inc. through the Company's consolidated subsidiary BUZZWIT Co., Ltd., OPEN AND NATURAL became a consolidated subsidiary (sub-subsidiary) in the first quarter of the current fiscal year. As a result, the Apparel and Sundry Goods-related Business recorded goodwill of 854 million yen. Goodwill is calculated provisionally because the allocation of the acquisition cost was incomplete at the end of the first quarter of the current fiscal year.

Significant gain on bargain purchase

Not applicable.

Business Combinations

Finalization of provisional accounting treatment of business combination

In the previous fiscal year, a provisional accounting treatment was used for the acquisition of Zetton, Inc. This treatment was finalized in the first quarter of the current fiscal year.

Due to the finalization of the accounting treatment for this acquisition, comparisons with the previous fiscal year included in the consolidated financial statements for the first quarter of the current fiscal year reflect significant revisions to the initial allocations of the cost of this acquisition.

In the finalized accounting treatment, 1,405 million yen of the acquisition cost was allocated to other under intangible assets and 430 million yen to deferred tax liabilities. As a result, provisional goodwill of 1,835 million yen decreased 975 million yen to 860 million yen.

Business combination through acquisition

The Adastria Board of Directors approved a resolution on March 18, 2022 to acquire shares in OPEN AND NATURAL Inc. through the Company's consolidated subsidiary BUZZWIT Co., Ltd. and to make it a consolidated subsidiary (sub-subsidiary). The acquisition has been completed on March 31, 2022.

1. Summary of business combination

(1) Acquired company and business activities

Acquired company: OPEN AND NATURAL Inc.

Business activities: Marketing of “pairmanon,” an EC brand for children's clothing

(2) Reasons for acquisition

As a part of our growth strategy for 2025, the Group is working to expand its digital customer communication channels. Starting operations in 2018, BUZZWIT has grown steadily as a company engaged in the development of a dedicated e-commerce brands for the economically priced market. In this context, BUZZWIT has sought out M&A opportunities to further expand its business and focused on the children's clothing category, which is an area of apparel that is a particularly suitable for e-commerce marketing.

OPEN AND NATURAL, the company being acquired, has been marketing “pairmanon,” an EC-only children’s clothing brand since its establishment in 2017. The economically priced and high-quality brand is moderately trend setting in the children’s clothing market. It has growing presence in the e-commerce market for children’s clothing and as well as in the overall children’s clothing market.

The acquisition of the shares will enable BUZZWIT to share its know-how and business structure with OPEN AND NATURAL and operational capabilities to further expand this business.

(3) Acquisition date

March 31, 2022 (stock acquisition date)
April 30, 2022 (assumed acquisition date)

(4) Legal form of acquisition

Acquisition of shares with cash

(5) Company name after acquisition

OPEN AND NATURAL’s name will not change.

(6) Percentage of voting rights acquired

100.0% (indirect ownership)

(7) Basis for choosing the company to acquire

BUZZWIT acquired the shares in exchange for consideration in cash.

2. Period of the acquired companies’ performance included in the quarterly statement of income

Results of operations of OPEN AND NATURAL are not included in the consolidated statement of income for the first quarter of the fiscal year ending in February 2023 because the acquisition date of OPEN AND NATURAL is the end of April 2022 for accounting purposes.

3. Acquisition cost of acquired companies and breakdown by type of consideration

Not disclosed due to a confidentiality agreement.

4. Details of major acquisition-related costs

Advisory fees, etc.: 14 million yen

5. Goodwill resulting from the acquisition

(1) Amount

854 million yen

Goodwill is calculated provisionally because the allocation of the acquisition cost was incomplete at the end of the first quarter of the current fiscal year.

(2) Source

The source of goodwill is primarily the expectation of excess earnings power emerging from business development in the future.

(3) Amortization method and period

Goodwill will be amortized over 9 years by the straight-line method.

3. Supplementary Information

(1) Sales for Brands and Regions

Brand / region	First three months of FY2/23		YoY change (%)
	Sales (million yen)	Composition (%)	
GLOBAL WORK	12,099	20.9	34.4
niko and ...	7,319	12.6	22.7
LOWRYS FARM	5,403	9.3	17.6
studio CLIP	4,803	8.3	8.5
LEPSIM	3,407	5.9	12.0
BAYFLOW	2,481	4.3	15.9
JEANASIS	2,421	4.2	6.6
LAKOLE	1,866	3.2	96.9
Others	8,091	13.9	18.1
Total (Adastria)	47,894	82.6	22.1
BUZZWIT Co., Ltd.	1,718	2.9	0.7
ELEMENT RULE Co., Ltd.	2,375	4.1	1.3
Other consolidated subsidiaries	49	0.1	626.3
Total (Japan)	52,038	89.7	20.2
Hong Kong	613	1.1	(9.7)
Mainland China	659	1.1	28.0
Taiwan	1,064	1.8	28.1
USA	1,568	2.7	59.8
Total (Overseas)	3,906	6.7	29.9
Total (Apparel and Sundry Goods-related Business)	55,945	96.4	20.8
Zetton, Inc. (Note 3)	1,941	3.4	-
ADASTRIA eat Creations Co., Ltd.	120	0.2	46.4
Total (Food and beverage business)	2,061	3.6	2,403.7
Total (Group)	58,006	100.0	25.0

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. Sales of Zetton, Inc. include its consolidated subsidiary ZETTON, INC (USA Business).

(2) Sales for Merchandise Categories

Category	First three months of FY2/23		YoY change (%)
	Sales (million yen)	Composition (%)	
Men’s apparel (bottoms, tops)	8,968	15.5	33.6
Lady’s apparel (bottoms, tops)	36,704	63.3	19.7
Others	12,333	21.2	36.8
Total	58,006	100.0	25.0

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	As of Feb. 28, 2022	First three months of FY2/23					As of May 31, 2022
		Increase (Note 3)	Opened	Changed	Closed	Increase /decrease	
GLOBAL WORK	206	-	-	-	(1)	(1)	205
niko and ...	144	-	1	-	(1)	-	144
LOWRYS FARM	136	-	1	-	(1)	-	136
studio CLIP	184	-	1	-	(3)	(2)	182
LEPSIM	120	-	1	-	-	1	121
BAYFLOW	60	-	1	-	-	1	61
JEANASIS	73	-	-	-	(1)	(1)	72
LAKOLE	47	-	6	-	-	6	53
Others	275	-	6	-	(1)	5	280
Total (Adastria)	1,245	-	17	-	(8)	9	1,254
BUZZWIT Co., Ltd.	18	-	2	-	(2)	-	18
ELEMENT RULE Co., Ltd.	84	-	4	-	(7)	(3)	81
Other consolidated subsidiaries	3	-	1	-	-	1	4
Total (Japan)	1,350	-	24	-	(17)	7	1,357
Hong Kong	14	-	1	-	-	1	15
Mainland China	6	-	1	-	-	1	7
Taiwan	43	-	6	-	(1)	5	48
USA	10	-	-	-	-	-	10
Total (Overseas)	73	-	8	-	(1)	7	80
Total (Apparel and Sundry Goods-related Business)	1,423	-	32	-	(18)	14	1,437
Zetton, Inc. (Note 4)	-	73	1	-	-	74	74
ADASTRIA eat Creations Co., Ltd.	5	-	-	-	-	-	5
Total (Food and beverage business)	5	73	1	-	-	74	79
Total (Group)	1,428	73	33	-	(18)	88	1,516

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. “Increase” represents the increase in the number of stores resulting from the consolidation of Zetton, Inc. at the end of FY2/22.
4. The number of stores of Zetton, Inc. includes its consolidated subsidiary ZETTON, INC (USA Business).
5. The number of stores does not include the stores of OPEN AND NATURAL Inc., which Adastria acquired during the first quarter of FY2/23, because the last day of the first quarter is used as the acquisition date for accounting purposes.

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.