October 13, 2021

Adastria Co., Ltd.

Frequently asked questions about FY2022/02 first half results

The following are the major questions received from the media, analysts, and institutional investors after the announcement of our financial results for the first half of the fiscal year ending February 28, 2022 on Thursday, September 30.

■About financial results

Q. What was the gap between the first half results and the FY2022/02 forecast?

A. The full-year forecast disclosed on April 5 did not incorporate the declaration of a state of emergency, and sales for the first half of the fiscal year were lower than the initial forecast due to the prolonged impact of COVID-19. Profits were also lower than expected, but the initial plan assumed that the impact of the COVID-19 would still be felt to some extent in the first half of the fiscal year, so the contribution in the first half was relatively small and we expected to recover in the 2nd half. In addition, our efforts to control SG&A expenses with the decline in sales were successful, and we were able to maintain a certain level of profit in the first half. For these reasons, we have not changed our full-year forecast at this time.

■About SG&A expenses

Q. What are the details of SG&A control?

A. In the first half of the fiscal year, we were able to keep SG&A expenses lower than initially planned due to decreased rent caused by the decline in sales and lower personnel expenses resulting from more efficient store operations. On the other hand, the promotion of our own EC (.st) for continued growth and the functional enhancement are proceeding as planned. Expenses related to the launch of new brands were lower than planned due to the postponement of some brands in consideration of the impact of the COVID-19.

■About inventory levels

Q. Is there no problem with the increase in inventory compared to the previous year?

A. Last year, we managed to keep as little inventory as possible considering effects of the COVID-19. This year, we are keeping certain amount of autumn and winter items to prepare the recovery in the second half of the year. Even though late summer products also remained in stock due to the extension of the emergency declaration and unseasonable weather in August, we have been reduce them on our EC site since September and have recovered to an appropriate level.

■About revised store opening

Q. Why did you revised store opening and closing plan at the beginning of the fiscal year?

A. As the impact of the COVID-19 has been longer and the recovery of human traffic has been slower than expected, especially for new brands, there is not enough data to verify the strategy of opening stores. Based on this situation, we have revised our plan to make prudent decisions on store openings. For existing brands, there is no change in our policy of actively opening, and we will continue to open new stores as planned when we have excellent opportunities.

■About EC site

Q. What has been improved in the functionality through EC maintenance?

A. In the maintenance of our own EC conducted at the end of September, we shifted to a cloud platform to expand our capacity. This improves page loading speed and response time, and greatly reduces the risk of server downtime due to concentrated access.

■About overseas

Q. What is the status of business results by overseas country?

A. The period covered by the consolidation of overseas business is from January to June. In Hong Kong, sales and profits increased due to the closure of unprofitable stores and rent reductions. In China, sales continued increasing due to the promotion of events and the contribution of the second store in Shanghai. Taiwan remained profitable in the first half due to the contribution of sales in the first quarter despite the increased impact of the COVID-19 during the second quarter. In the U.S., the business returned to profitability as demand for physical stores and wholesale business recovered due to the spread of vaccines and deregulation.