

FY2021/02

Financial Results & Business Strategy

April 5, 2021

A D A S T R I A
— *Play fashion!*



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1. FY2021/02 Overview



Summary of FY2021/02

FY2021/02 assessment and issues

Assessment

Adapted to current market conditions → Developed new content and customer contact points, increased use of digital technologies and set the stage for overseas growth while maintaining financial soundness

Issues

Medium/long-term actions → Establish the groundwork for the next phase of growth and target growing market sectors in order to assemble a next-generation business portfolio

COVID-19 showed us the world 5 to 10 years from now

External environment

Life styles are changing, Japan's population is declining and digital technologies are altering how people live; the conventional store business is shrinking as a result

Adastria

Reinforce our presence in current business sectors, strengthen our presence in new sectors and continue changing with speed and agility

Positioning of FY2022/02

A year for investments for growth starting in the following fiscal year

Use earnings in existing businesses for investments targeting the key issues of global growth, digital technologies and sustainability



The Adastria Group's Goals for 2025

Continuous growth with consistent profitability

Sales growth: CAGR +**5%**

Operating margin: **8%** or more

ROE **15%**

Obligations to stakeholders

Shareholders

Sustained earnings growth
Consistent growth of corporate value

Employees

Continuous improvement in job satisfaction and opportunities
Support for enjoying life with confidence and in good health

Customers

Be a source of value for customers
Maximize win-win relationships

Society

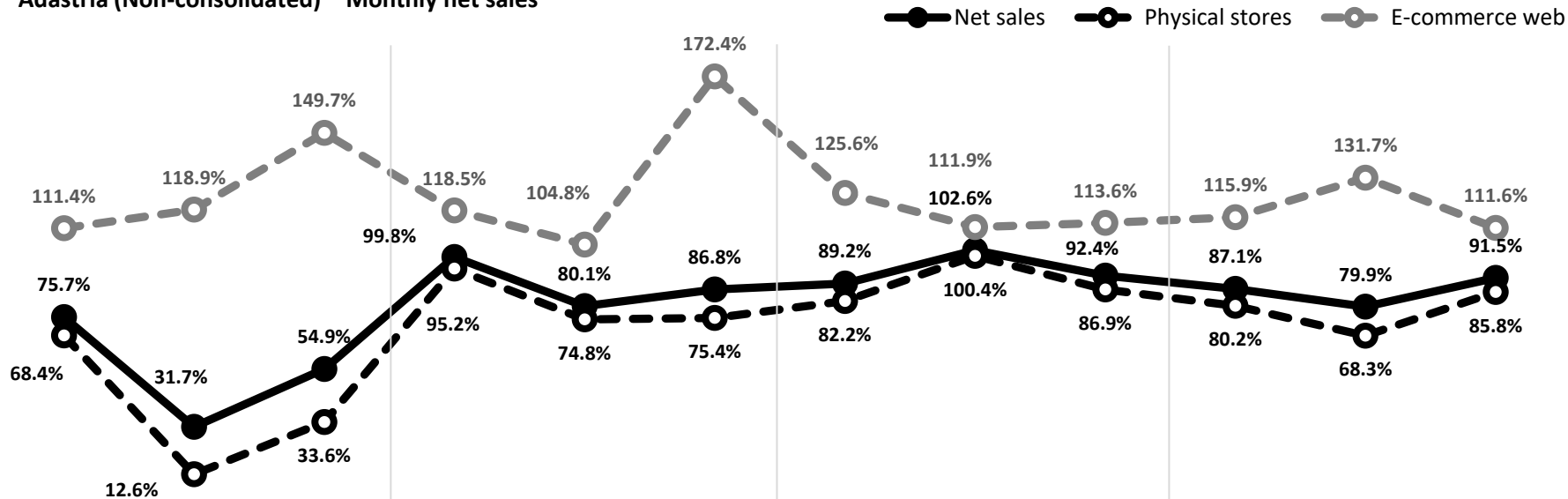
Build reliable and friendly relationships with business partners
Contribute to sustainability

2. FY2021/02 Financial Results



Summary of FY2021/02

Adastria (Non-consolidated) Monthly net sales



Mar. Apr. May Jun. Jul. Aug. Sep. Oct. Nov. Dec. Jan. Feb.

1Q

- Temporary suspension of all physical stores
- Strengthened e-commerce (more employees participating in Staff Board)
- Sold inventories of spring apparel
- Negotiations and other measures to reduce store rent
- Started using telework and other new job formats

2Q

- June sales up due to a temporary upturn in spending after the lockdown in Japan
- Second wave of COVID-19 started in July
- Controlled purchases of fall apparel (right timing, volume and price; increased measures to monitor market trends)
- Reinforced e-commerce; online customer interaction

3Q

- Customer traffic started to improve
- More sales of merchandise at list prices
- Inventory control
- Strong sales of fall/winter apparel
- Became profitable
- About 3,000 employees participating in Staff Board

4Q

- Third wave of COVID-19
- Decrease in customer traffic due to another state of emergency that restricted outings
- Activities to reduce inventory of winter apparel
- Brisk sales of spring apparel due to warm weather in February

Consolidated Income Statement

Millions of yen

	FY2020/02		FY2021/02		
	Results		Results		
		Ratio		Ratio	YoY
Net sales	222,376	100.0%	183,870	100.0%	82.7%
Adastria(Non-consolidated)	197,451	88.8%	160,940	87.5%	81.5%
Domestic subsidiaries *1	15,226	6.8%	15,030	8.2%	98.7%
Overseas subsidiaries *2	12,743	5.7%	10,778	5.9%	84.6%
Gross profit	123,383	55.5%	100,125	54.5%	81.2%
SG&A expenses	110,497	49.7%	99,358	54.0%	89.9%
Advertising & promotion	8,104	3.6%	7,163	3.9%	88.4%
Personnel	39,131	17.6%	36,761	20.0%	93.9%
Rent & depreciation	42,090	18.9%	36,544	19.9%	86.8%
Amortization of goodwill	167	0.1%	157	0.1%	94.4%
Others	21,003	9.4%	18,730	10.2%	89.2%
Operating profit	12,885	5.8%	766	0.4%	6.0%
Adastria(non-consolidated)	12,010	-	1,521	-	12.7%
Domestic subsidiaries *1	612	-	-799	-	-
Overseas subsidiaries *2	-902	-	-898	-	-
Adastria Logistics	723	-	634	-	87.7%
Ordinary profit	12,843	5.8%	2,981	1.6%	23.2%
Net income	6,363	2.9%	-693	-0.4%	-
EBITDA	20,357	9.2%	7,766	4.2%	38.2%
Depreciation and amortization	7,304	3.3%	6,841	3.7%	93.7%
Amortization of goodwill	167	0.1%	157	0.1%	94.4%
Capital expenditure	11,170		9,298		

*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: 183.8 billion yen (-17.3% YoY)

- Parent company: Sales down because of COVID-19 but performance was relatively strong with support of BAYFLOW, LAKOLE and other brands with many items other than apparel and brands with a high pct. of e-commerce sales
- Domestic subsidiaries: BUZZWIT, an only-online brand, remained strong, but sales were down at ELEMENT RULE because of physical store closings
- Overseas subsidiaries: Sales increased in China and Taiwan but were down in Hong Kong, South Korea and the U.S.

■ Gross profit margin: 54.5% (-1.0p YoY)

- Decreased because of first half discounts to sell off inventories; but the margin recovered in the second half because inventories were properly controlled

■ SG&A expense ratio: 54.0% (+4.3p YoY)

- Advertising & promotions: 3.9% (+0.3p, -0.94 billion yen YoY)
Held down overall sales promotion expenses
- Personnel: 20.0% (+2.4p, -2.3 billion yen YoY)
Down because of temporary store closings and reduced operating hours
- Rent and depreciation: 19.9% (+1.0p, -5.5 billion yen YoY)
Temporary lease reductions and lowered rent due to lower sales
- Other: 10.2% (+0.8p, -2.2 billion yen YoY)
Reductions in the cost of packaging materials and decrease in business travel

■ Operating profit: 0.76 billion yen (-94.0% YoY) EBITDA margin: 4.2% (-5.0p YoY)

■ Ordinary profit: 2.9 billion yen (-76.8% YoY)

- Includes a 1.7 billion yen employment adjustment subsidy (non-operating income)

■ Net income: -0.69 billion yen (-7.0 billion yen YoY)

- Impairment losses of 1.3 billion yen on store interiors and fixtures, etc.

Parent Company (non-consolidated) Income Statement

Millions of yen

	FY2020/02	FY2021/02	
	Results	Results	
			YoY
Net sales	197,451	160,940	81.5%
(Existing stores YoY)	101.0%	80.7%	
GLOBAL WORK	41,710	33,845	81.1%
niko and...	32,017	26,092	81.5%
LOWRYS FARM	23,691	19,436	82.0%
studio CLIP	22,444	18,558	82.7%
LEPSIM	14,335	11,132	77.7%
Gross profit	108,354	87,401	80.7%
Gross margin	54.9%	54.3%	-0.6
SG&A expenses	96,343	85,879	89.1%
SG&A ratio	48.8%	53.4%	+4.6p
Operating profit	12,010	1,521	12.7%
Operating margin	6.1%	0.9%	-5.1

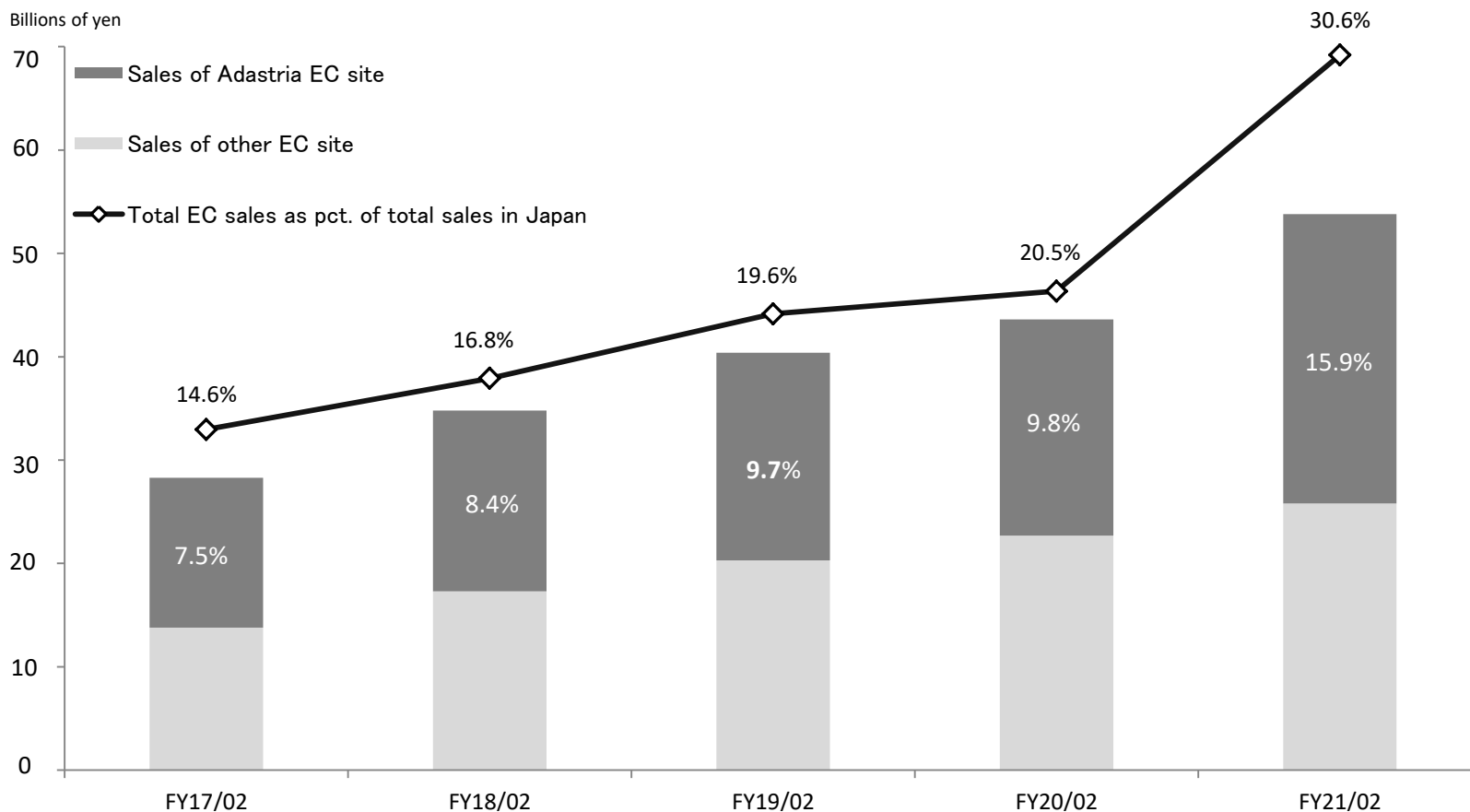
Opened	33	55
Closed	-66	-53
Renovated	27	41
As of the end of 1H	1,229	1,228

* : Amortization of goodwill for FY2020/02 : 122 million yen, FY2021/02 : 114 million yen

Online Business

Domestic Online business growth continued

- FY2021/02 domestic e-commerce sales: **53.8** billion yen (+23.4% YoY)
 - Domestic online business ratio: 30.6% (Adastria EC site: approx. 15.9%)
 - Adastria's ".st" EC site has about 11.7 million members (+1.4 million from the end of FY2020/02)



*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

	FY2019/12	FY2020/12		
	Results	Results		
			YoY (JPY)	YoY (Local currency)
Net sales	12,743	10,778	84.6%	67.5%
Hong Kong	3,431	2,589	75.5%	76.3%
China	534	1,293	241.8%	248.3%
Taiwan	2,532	2,743	108.3%	106.1%
Korea	1,171	710	60.6%	62.6%
USA	5,072	3,440	67.8%	69.2%
Operating profit	-902	-898	-	-
Hong Kong	-318	-99	-	-
China	-573	-289	-	-
Taiwan	171	245	142.9%	139.4%
Korea	-213	-127	-	-
USA*	31	-627	-	-

* : Amortization of goodwill for USA FY2019/12: 25 million yen, FY2020/12: 24 million yen

- Sales declined in Hong Kong due to the impact of COVID-19 and the store closures.
- In the USA, sales and earnings declined due to physical store closings.
- In China, sales increased due to the strong performance of niko and... SHANGHAI flagship store.
- In Korea, the shutdown of all operations was completed by the end of 2020. This will help improve earnings in the overseas business starting in 2021.

Consolidated Balance Sheet

Millions of yen

	End of FY2020/02		End of FY2021/02		
		Ratio		Ratio	Compared with the end of FY2020/02
Current assets	53,234	54.4%	51,569	54.0%	-1,665
Cash and deposits	26,462	27.0%	24,179	25.3%	-2,282
Inventories	15,008	15.3%	15,718	16.5%	+709
Non-current assets	44,689	45.6%	44,880	46.0%	-809
Property, plant and equipment	15,265	15.6%	14,577	15.3%	-688
Goodwill	478	0.5%	113	0.1%	-365
Investments and other assets	23,146	23.6%	22,010	23.2%	-1,135
Total assets	97,924	100.0%	95,449	100.0%	-2,474
Liabilities	40,883	41.7%	44,747	46.9%	+3,864
Interest-bearing debt	0	0.0%	0	0.0%	0
Net assets	57,041	58.3%	50,701	53.1%	-6,339
Treasury shares	-4,372	-4.5%	-7,917	-8.3%	-3,544

*: In FY2021/02, 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 FY2020/02

- **Cash and deposits:** Net cash is 2.2 billion yen lower than one year earlier
- **Inventories:** Higher than one year earlier because of growth of spring apparel inventories for sale in FY2022/02
- **Liabilities:** Increases in payables/income tax payable because of special deferment of tax payments
- **Net assets:** Net asset ratio of 53.1%. Acquired treasury shares of 3.6 billion yen in December 2020

Financially sound due to a three-year 30 billion yen committed credit facility with four major banks that serve Adastria

Number of Stores

	End of FY2020	Transferred *2	FY2021/02			
	Number of stores		Opened	Changed	Closed	End of FY2021/02
GLOBAL WORK	210	-	3	-1	-3	209
niko and ...	144	-	3	0	-3	144
LOWRYS FARM	136	-	0	0	-2	134
studio CLIP	183	-	4	0	-4	183
LEPSIM	128	-	0	0	-6	122
JEANASIS	73	-	3	0	-4	72
BAYFLOW	54	-	5	0	-3	56
RAGEBLUE	54	-	1	0	-6	49
Others	247	-3	36	1	-22	259
Adastria non-consolidated t	1,229	-3	55	0	-53	1,228
(Online store included)	(54)	(-1)	(15)	(0)	(-1)	(66)
Domestic subsidiaries total †	86	3	26	0	-11	104
(Online store included)	(16)	(2)	(14)	(0)	(0)	(32)
Japan total	1,315	-	81	0	-64	1,332
(Online store included)	(70)	-	(29)	(0)	(-1)	(98)

Hong Kong	16	-	0	0	-2	14
China	1	-	2	0	0	3
Taiwan	37	-	5	0	-1	41
Korea	13	-	0	0	-13	0
USA	10	-	1	0	-1	10
Oversea total	77	-	8	0	-17	68
(Online store included)	(13)	-	(1)	(0)	(-4)	(10)

Consolidated total	1,392	-	89	0	-81	1,400
(Online store included)	(83)	-	(30)	(0)	(-5)	(108)

FY2022/02 Plan			
Open	Change	Close	End of FY2022/02
1	0	-2	208
4	0	0	148
4	0	0	138
5	0	-1	187
0	0	-2	120
2	0	-1	73
5	0	0	61
1	0	-1	49
68	0	-43	284
90	0	-50	1,268
(0)	(0)	(0)	(66)
14	0	-8	110
(6)	(0)	(-3)	(35)
104	0	-58	1,378
(6)	(0)	(-3)	(101)

0	0	0	14
4	0	0	7
5	0	-1	45
-	-	-	-
1		-1	10
10	0	-2	76
(1)	(0)	(0)	(11)

114	0	-60	1,454
(7)	(0)	(-3)	(112)

*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.

*2 : From March 2010, 3 stores of PAS TIERRA brand were transferred from parent company to ELEMENT RULE Co., Ltd.

FY2022/02 Consolidated Forecast

Millions of yen

	FY2021/02	FY2022/02		
	Results		Forecast	
			% to sales	YoY
Net sales	183,870	219,000	100.0%	119.1%
Gross profit	100,125	121,950	55.7%	121.8%
SG&A expenses	99,358	115,450	52.7%	116.2%
Operating profit	766	6,500	3.0%	847.7%
Ordinary profit	2,981	6,500	3.0%	218.0%
Net income	-693	3,800	1.7%	-
ROE	-	7.4%	-	-
EBITDA	7,766	13,150	6.0%	169.3%
Depreciation and amortization	6,841	6,600	3.0%	96.5%
Amortization of goodwill	157	50	0.0%	31.8%
Capital expenditure	9,298	12,976		

- Forecast consolidated net sales of 219 billion yen, 19.1% higher than one year earlier, based on the outlook for the effects of the COVID-19 crisis to continue in the first half followed by a second half recovery.
 - Forecast consolidated operating profit of 6.5 billion yen
 - Capital expenditures of 12.9 billion yen for the expansion of existing brands, e-commerce and digital technology upgrades, overseas growth, and other activities
- * The consolidated forecast does not incorporate the possibility of a major decline in economic activity caused by another increase in COVID-19 infections. Consequently, actual performance may differ significantly from this forecast.

FY2022/02 Parent Company (non-consolidated) Forecast

Millions of yen

	FY2021/02	FY2022/02	
	Results	Forecast	
Net sales	160,940	186,800	116.1%
(Same stores YoY)	80.7%	118.2%	+37.5%
Gross profit	87,401	103,150	118.0%
Gross profit margin	54.3%	55.2%	+0.9p
SG&A expenses	85,879	97,800	113.9%
SG&A expense ratio	53.4%	52.4%	- 1.0p
Operating profit	1,521	5,350	351.7%
Operating margin	0.9%	2.9%	+1.9p

■ Net sales: 186.8 billion yen (+16.1% YoY)

- Existing store sales: 18.2% YoY
- Existing store sales: -5% vs FY2019/02

■ Gross profit margin: 55.2% (+0.9p YoY)

- Expect lower discounting ratio due to inventory optimization

■ SG&A expense ratio: 52.4% (-1.0p YoY)

- Strategic growth expenditures including for new brands and e-commerce promotion

Opened	55	90
Closed	-53	-50
Renovated	41	32
As of the end of fiscal year	1,228	1,268

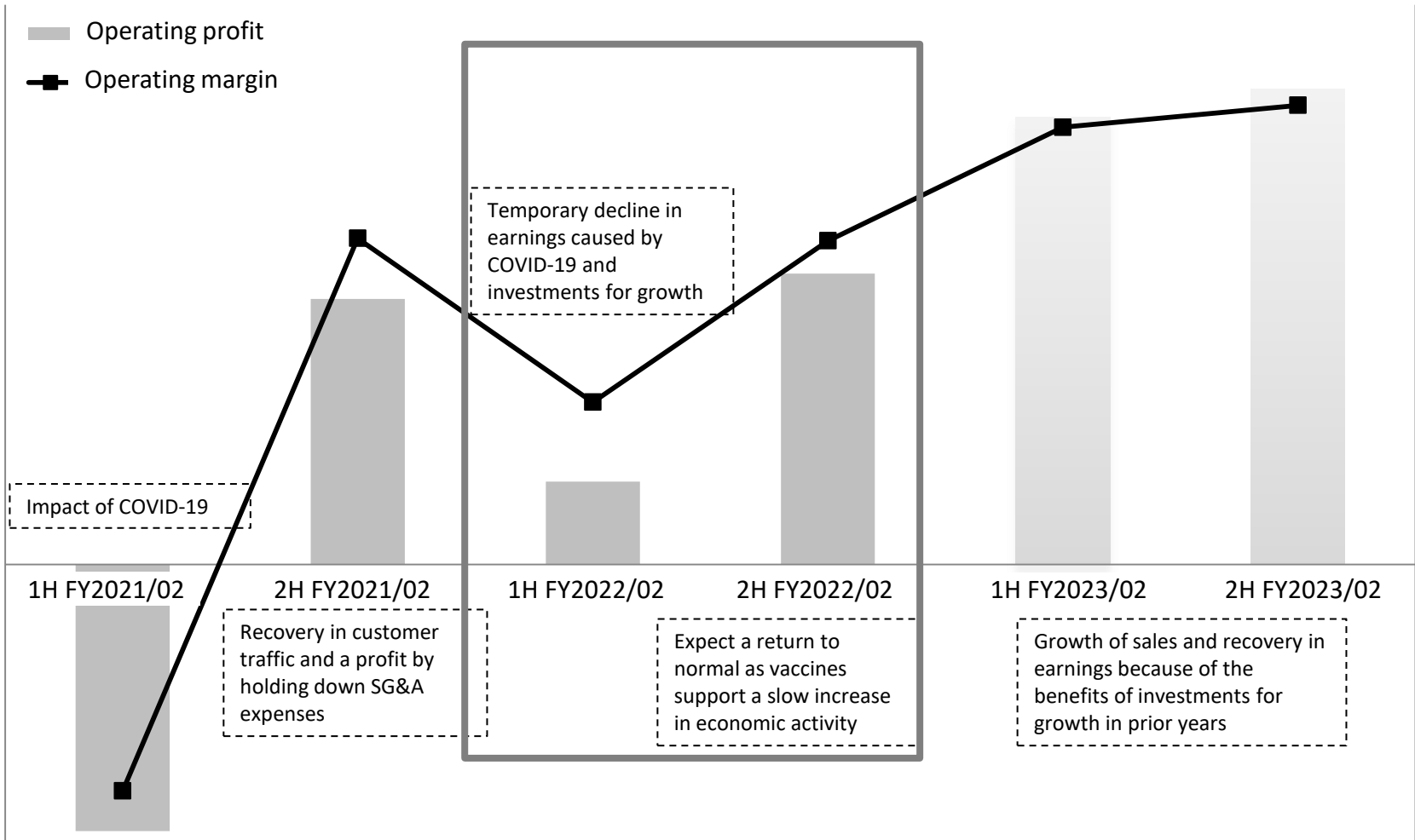
■ Opened/closed stores

- Plan on opening many stores, increasing the size of stores and taking other actions

Outlook for the Recovery of Sales and Earnings

Profitability/investments balance in FY2022/02 with benefits expected to start appearing in FY2023/02

Millions of yen



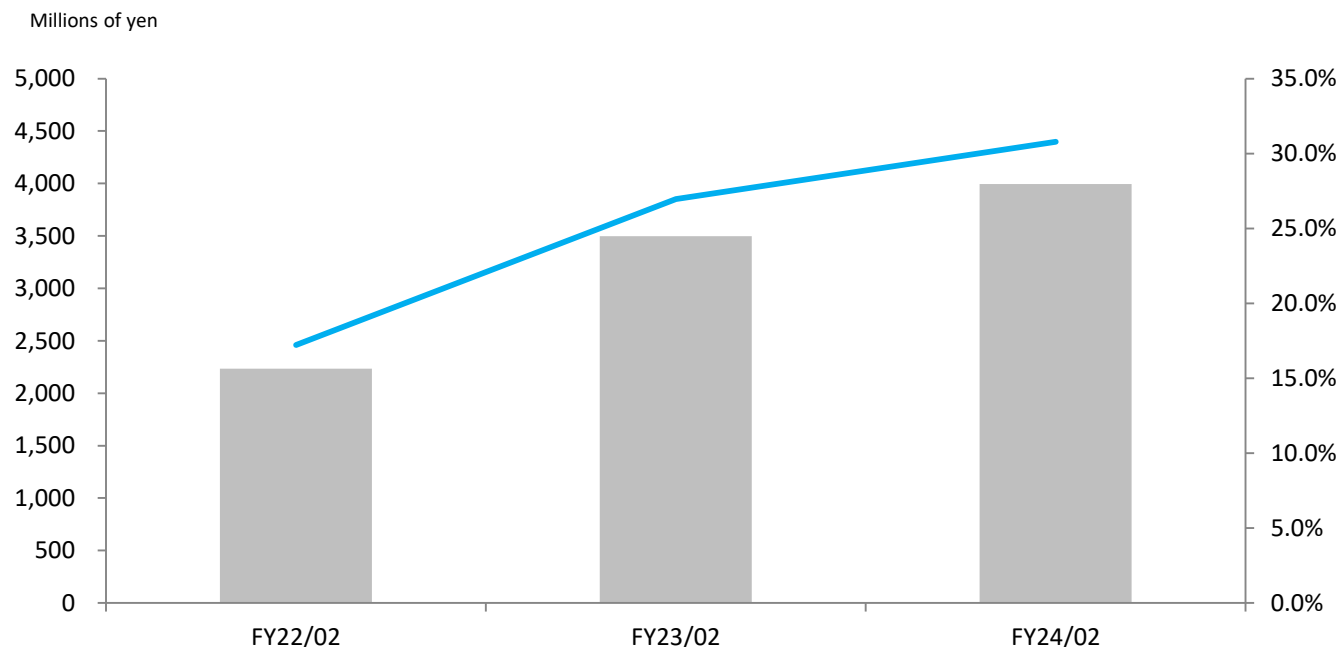
Investment Plan

Investments of about 13 billion yen by the Adastria Group

Major categories	Amount	Goals
Store development	6.4 billion yen	<ul style="list-style-type: none"> • More growth of existing growth brands • Larger stores for major brands to be a source of more lifestyle ideas for customers • Launch and strengthen new brands
IT System	4.7 billion yen	<ul style="list-style-type: none"> • Increase recognition of the company's e-commerce website [.st] • Revamp the company's e-commerce system • More customer contact points, more value for customers using merchandise and experiences • Build a powerful IT infrastructure
Overseas	0.9 billion yen	<ul style="list-style-type: none"> • Establish an overseas business headquarters in China; strengthen production capabilities in China • More stores in China/Taiwan; utilize multi-brand operations know-how • Growth in Southeast Asia
Other	1.0 billion yen	<ul style="list-style-type: none"> • M&A activity (start-up business) • Preparations for new businesses

Return on Investment Plan

Aim for ROIC (after-tax cash flow ratio) of 30% in three years from FY22/02 investment of 13 billion yen.



Investment amount
FY22/02
12,976

ROIC		
FY22/02	FY23/02	FY24/02
17.2%	27.0%	30.8%

Return to Shareholders

Millions of yen

	FY2017/02	FY2018/02	FY2019/02	FY2020/02	FY2021/02	FY2022/02 (Forecast)
Dividend per share (Yen)	75	50	50	50	40	50
(Interim dividend)	(35)	(35)	(20)	(25)	(15)	(25)
Total dividend	3,608	2,379	2,379	2,382	1,856	2,258
Net income (consolidated)	11,575	863	3,890	6,363	-693	3,800
Amortization of goodwill*	2,184	4,712	1,306	167	362	50
Dividend payout ratio	30.9%	272.3%	60.5%	37.0%	-	59.4%
(Amortization of goodwill excluded)	(26.0%)	(42.2%)	(45.3%)	(36.1%)	-	(58.6%)
Share repurchase	2,564	0	0	0	3,671	-

*Goodwill amortization includes an impairment loss recorded as an extraordinary loss

- Dividend policy: The basic policy is a 30% consolidated payout ratio before goodwill amortization while maintaining the proper balance among dividend stability, investments for growth and distributions to shareholders
- No change in the forecast of a 40 yen annual dividend per share (15 yen interim and 25 yen year-end dividends) for FY2021/02
- Forecast a 50 yen annual dividend per share (25 yen interim and year-end dividends) for FY2022/02

3. Growth Strategy Progress



The 2025 Growth Strategy

Our goal: More customers x More value for customers

Play fashion!

Joyful options galore!

More value for customers

More 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

The Challenge of Sustainable Management

Build a sustainable business model with the environment, people, and communities

Growth Strategy I. Use Multiple Brands to Serve Customers throughout Their Lives

Launch and strengthen the next growth-driver brands and provide ideas for many life styles

Focus investments on new life styles

Progress

- Enlarging the lineup of accessories and other products to reflect changes in life styles

Plans

- Faster growth in number of LAKOLE and BAYFLOW stores
- Plan to open about 40 stores during FY2022/02
- Focus investments on larger niko and ... stores



Develop, upgrade and expand content

Progress

- Large investments for growth targeting the next-generation adult market
- Collaboration with overseas brands and use of these brands in Japan

Plans

- Continue opening Elura and ALAND stores
- Spin out new content for existing brands (Utao; yuw, e/rm and others) and open stores for individual brands



Growth Strategy II. Use Services and Experiences to Maximize Customer Interaction

Increase brand awareness, meet growing demand, create new customer points of contact and experiences

Using Staff Board for more customer contact

Progress

- Exclusive e-commerce input about fashion from store personnel
- A new online communication channel with customers with videos linked to an individual's SNS and other features
- Increased participating store personnel from about 700 to more than 3,000
- Sales via Staff Board have increased to about half of all e-commerce sales

Plans

- More activities to improve quality
- Establish a performance evaluation system for stores and salespeople that reflects contributions to sales via Staff Board
- Improve the IT system to make posting photos and managing content easier

STAFF BOARD



Staff Board

Expansion of the ".st" website

Plans

- More advertising and promotional activities to increase awareness of this website
- TV commercials and internet advertisements
- Plan to open the first store in May 2021 using the new concept of combining internet and physical stores
- Partial start of omni-channel services in the first half of FY2022/02



Commercials featuring actress Non



Rendering of a store using the new internet/physical store concept

A D A S T R I A
—
Play fashion!

Growth Strategy III. Use Resources of Regions Worldwide to Create Value Jointly

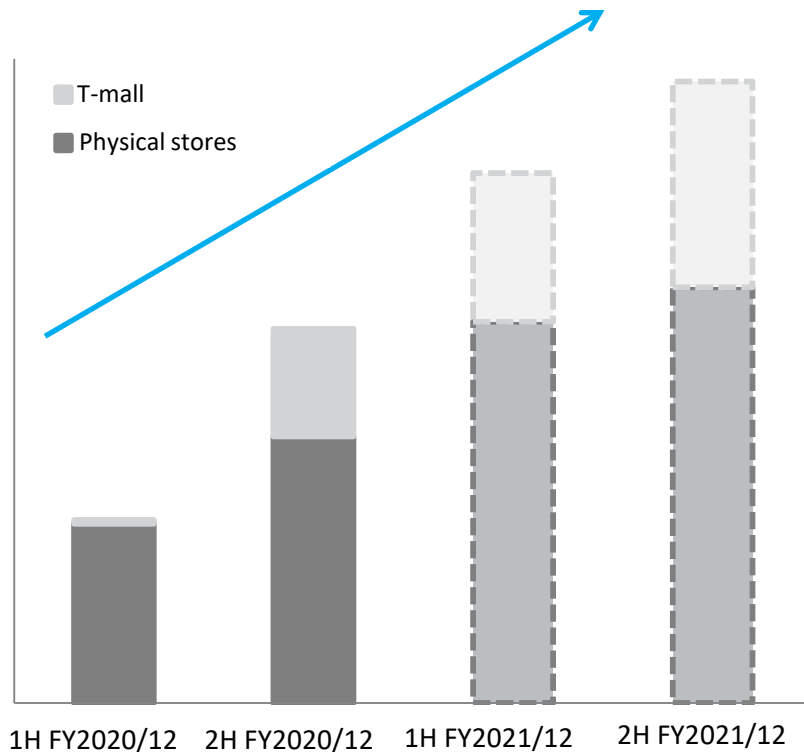
Use Shanghai as a Base for Faster Growth in Greater China

Steady growth of operations in China

Progress

China recovered rapidly from the COVID-19 pandemic. Sales at the flagship niko and... SHANGHAI store have been growing and a second store was opened in Shanghai. Partnerships with prominent brands in China, influencers and others are increasing brand awareness.

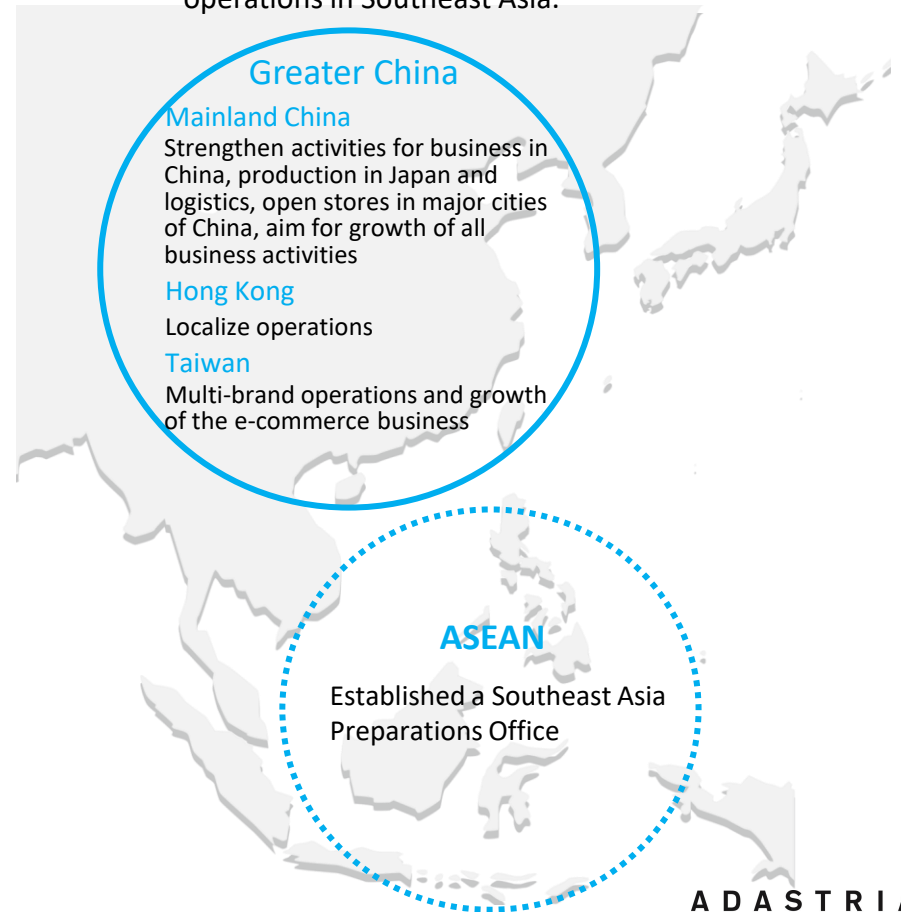
- Opened a store on T-mall and participated in “Double 11” and “Double 12,” China’s biggest shopping days.



Established an overseas business headquarters in Shanghai

Plans

- This headquarters establishes a system for strengthening the functions of the subsidiary in Shanghai for cross-functional management of production, logistics and sales.
- Established an office to oversee preparations to start operations in Southeast Asia.



Growth Strategy IV. Start New Businesses Linked to Enjoyable and Fulfilling Lives

Use co-creation with partner companies and employees to target new business sectors other than apparel

ADASTRIA eat Creations

Plans

- Adastria has the exclusive right in Japan to operate Jamba Juice smoothie shops, which started in the United States, and intends to expand the shop network.
March 8 YOKOHAMA PORTA
March 15 Tokyo Dome City LaQua
Plan to open three more shops during FY2022/02.



The Jamba Juice TOKYO DOME LaQua store

Ideas from employees become new businesses

Progress

- Started the MACHI DESK rental work space business
- A private space near home to meet the demand for remote work
- Features fashionable designs to provide spaces that make people look forward to going to work



The MACHI DESK Tsudanuma store

Our Commitment to Sustainable Management

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

Keep fashion exciting for many more years



Advancement for women and reforms for working styles

- Progress**
- The percentage of female department managers increased from 9% in FY2020/02 to 14% in FY2021/02
 - Due to many measures for supporting women in the workplace, Adastria received its first selection in 2020 as a Semi-Nadeshiko brand
- Plans**
- Start a working style reform project for shop personnel that also encompasses developers and tenants
 - Start new working formats on a trial basis in May 2021, including a flex-time system for operating hours of a store at the Shin-Shizuoka Cenova shopping center

Establishment of subsidiary ADOORLINK

- Progress**
- Main activities are an apparel direct-to-consumer business using sustainable materials and production technologies and an upcycling business for unsold inventories, sample merchandise and other items
 - Merchandise using the “00u” life style brand, which stands for merchandise in step with the environment and a broad spectrum of life styles
 - Higg Materials Sustainability Index (Higg MSI) scores are shown for all merchandise



Selected as a 2020 Semi-Nadeshiko brand



Announcement of the working style reform project



New brand “00u”



Example of information on a product page

A D A S T R I A
— *Play fashion!*