

Summary of Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending February 28, 2022
(Nine Months Ended November 30, 2021)

[Japanese GAAP]

December 27, 2021

Company name: Adastria Co., Ltd.

Stock code: 2685

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Scheduled date of filing of Quarterly Report: January 14, 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 December 27, 2021 at 18:00 (GMT +9).

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

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending February 28, 2022
(March 1, 2021 – November 30, 2021)

(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	%
Nine months ended Nov. 30, 2021	146,731	10.5	4,483	304.6	5,725	83.7	3,534	187.6
Nine months ended Nov. 30, 2020	132,833	(19.1)	1,108	(90.7)	3,116	(73.7)	1,228	(82.2)

Note: Comprehensive income
 Nine months ended Nov. 30, 2021: 3,734 million yen (up 297.4%)
 Nine months ended Nov. 30, 2020: 939 million yen (down 86.5%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Nov. 30, 2021	78.16	-
Nine months ended Nov. 30, 2020	26.13	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Nov. 30, 2021	101,320	52,434	51.8
As of Feb. 28, 2021	95,449	50,701	53.1

Reference: Shareholders' equity As of Nov. 30, 2021: 52,434 million yen As of Feb. 28, 2021: 50,701 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, 2021	-	15.00	-	25.00	40.00
Fiscal year ending Feb. 28, 2022	-	25.00	-	-	-
Fiscal year ending Feb. 28, 2022 (forecast)	-	-	-	25.00	50.00

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

3. Consolidated Forecast for the Fiscal Year Ending February 28, 2022 (March 1, 2021 – February 28, 2022)

(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	219,000	19.1	6,500	747.7	6,500	118.0	3,800	-	84.14

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): Yes

Newly added: -

Excluded: 1 (Adastria Korea Co., Ltd.)

(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 Nov. 30, 2021:	48,800,000 shares	As of Feb. 28, 2021:	48,800,000 shares
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2) Number of treasury shares at the end of the period

As of Nov. 30, 2021:	3,552,319 shares	As of Feb. 28, 2021:	3,639,505 shares
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3) Average number of shares outstanding during the period

Nine months ended Nov. 30, 2021:	45,224,082 shares	Nine months ended Nov. 30, 2020:	47,030,649 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 nine months of FY2/21 (Mar. 1, 2020 – Nov. 30, 2020)	First nine months of FY2/22 (Mar. 1, 2021 – Nov. 30, 2021)	YoY change (Amount)	YoY change (%)
Net sales	132,833	146,731	13,898	10.5
Operating profit	1,108	4,483	3,375	304.6
Ordinary profit	3,116	5,725	2,608	83.7
Net income attributable to owners of the parent	1,228	3,534	2,305	187.6

Consolidated net sales in the first nine months (March 1 – November 30, 2021) increased 10.5% year-on-year to 146,731 million yen, operating profit increased 304.6% year-on-year to 4,483 million yen, ordinary profit increased 83.7% year-on-year to 5,725 million yen, and net income attributable to owners of the parent increased 187.6% year-on-year to 3,534 million yen.

Sales in the first nine months in Japan increased 9.9% year-on-year to 137,749 million yen. In the first quarter, sales rebounded strongly from the same period a year earlier as the business environment of physical stores improved. However, sales in the second quarter were marginally lower than the same period a year earlier as the state of emergency and priority measures were extended to more areas and prolonged due to the pandemic. In addition, unseasonal weather, including long spells of rain, also affected sales. In the third quarter, sales early in the quarter were held down by the continuation of the state of emergency and unseasonably warm weather. Later in the third quarter, sales of fall and winter apparel recovered along with cooler weather and an upturn in apparel demand as people started going on outings more. Overall, third quarter sales were only slightly higher than the same period a year earlier because the severity of the pandemic had temporarily declined at that time. E-commerce sales in the third quarter continued to grow, increasing 8.1% from one year earlier with the support of TV commercials and other substantial marketing activities for increasing the number of customers of the Adastria e-commerce “.st” website.

Overseas sales increased 20.4% year-on-year to 8,981 million yen. Sales increased 97.4% year-on-year in Mainland China due to the opening of the second niko and ... store in Shanghai. Both sales and earnings were up in Hong Kong, where the impact of the COVID-19 pandemic was not significant. In Taiwan, earnings continued to grow although there was a small decline in sales as the economy slowed down due to another wave of the pandemic that ended in August. In the United States, wholesale sales as well as sales at physical stores rose as the U.S. economy recovered and this segment returned to profitability in the third quarter.

We opened 85 stores (including seven overseas) and closed 23 stores (including five overseas), resulting in a total of 1,462 stores (including 70 overseas) at the end of the first nine months of the fiscal year.

In this environment, we kept inventories and discount sales in check by offering “the right product at the right price at the right time.” As a result, the gross profit margin remained at 55.7%, the same level as one year earlier.

Selling, general and administrative expenses increased 6.0% partially because there was no reduction or exemption of store rent as in the previous fiscal year and advertising and sales promotion increased for raising the awareness of our e-commerce operations. However, there was an operating surplus as the ratio of selling, general and administrative expenses improved by 2.2 percentage points to 52.6% of sales because of sales growth. The operating margin also rose 2.2 percentage points. In addition, we recorded as non-operating income subsidies for employment adjustment of 486 million yen associated with temporary store closings and a subsidy of 471 million yen related to shortened operating hours caused by the pandemic, and foreign exchange gains of 240 million yen.

There was extraordinary income of 264 million yen for the reversal of the allowance for doubtful accounts resulting from the conversion of a loan to LOVEBONITO HOLDINGS PTE.LTD.a Singapore company using the “Love Bonito” omnichannel fashion brand, to equity to become an equity partner of this company and 81 million yen due to a gain on the liquidation of the Korean subsidiary. There was an extraordinary loss of 321 million yen for the impairment of store assets.

(2) Explanation of Financial Position

Total assets increased 5,870 million yen from as of February 28, 2021 to 101,320 million yen as of November 30, 2021. There was a decrease of 8,263 million yen in cash and deposits but there were increases of 7,265 million yen in notes and accounts receivable-trade, 5,924 million yen in inventories and 982 million yen in other (software, etc.) under intangible assets.

Liabilities increased 4,137 million yen to 48,885 million yen. There were decreases of 2,299 million yen in accounts payable-other, 1,805 million yen in income taxes payable but there were increases of 3,061 million yen in notes and accounts payable-trade and 6,000 million yen in short-term borrowings.

Net assets increased 1,732 million yen to 52,434 million yen. This was mainly due to a decrease of 281 million yen in treasury shares (increase in net assets), and increases of 1,252 million yen in retained earnings and 206 million yen in foreign currency translation adjustment.

(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 5, 2021.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

(Million yen)

	FY2/21 (As of Feb. 28, 2021)	Third quarter of FY2/22 (As of Nov. 30, 2021)
Assets		
Current assets		
Cash and deposits	24,179	15,916
Notes and accounts receivable-trade	9,751	17,016
Inventories	15,718	21,643
Other	1,995	1,317
Allowance for doubtful accounts	(74)	(133)
Total current assets	51,569	55,760
Non-current assets		
Property, plant and equipment		
Store interior equipment, net	4,222	4,410
Other, net	10,354	10,128
Total property, plant and equipment	14,577	14,538
Intangible assets		
Goodwill	113	68
Other	7,179	8,161
Total intangible assets	7,292	8,230
Investments and other assets		
Investment securities	260	988
Leasehold and guarantee deposits	15,162	15,092
Other	7,772	7,049
Allowance for doubtful accounts	(1,184)	(340)
Total investments and other assets	22,010	22,790
Total non-current assets	43,880	45,559
Total assets	95,449	101,320
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,548	12,610
Electronically recorded obligations-operating	7,360	7,793
Short-term borrowings	-	6,000
Accounts payable-other	14,040	11,740
Income taxes payable	4,151	2,345
Provision for bonuses	2,170	1,186
Provision for point card certificates	1,285	2,037
Other provisions	420	432
Other	2,077	1,385
Total current liabilities	41,055	45,531
Non-current liabilities		
Provisions	356	308
Other	3,336	3,045
Total non-current liabilities	3,692	3,354
Total liabilities	44,747	48,885

(Million yen)

	FY2/21 (As of Feb. 28, 2021)	Third quarter of FY2/22 (As of Nov. 30, 2021)
Net assets		
Shareholders' equity		
Share capital	2,660	2,660
Capital surplus	7,213	7,213
Retained earnings	48,479	49,731
Treasury shares	(7,917)	(7,636)
Total shareholders' equity	50,435	51,969
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	(2)
Deferred gains or losses on hedges	34	29
Foreign currency translation adjustment	231	438
Total accumulated other comprehensive income	266	465
Non-controlling interests	-	0
Total net assets	50,701	52,434
Total liabilities and net assets	95,449	101,320

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income****(For the Nine-month Period)**

(Million yen)

	First nine months of FY2/21 (Mar. 1, 2020 – Nov. 30, 2020)	First nine months of FY2/22 (Mar. 1, 2021 – Nov. 30, 2021)
Net sales	132,833	146,731
Cost of sales	58,883	65,058
Gross profit	73,949	81,673
Selling, general and administrative expenses	72,841	77,189
Operating profit	1,108	4,483
Non-operating income		
Foreign exchange gains	34	240
Subsidy income	190	471
Subsidies for employment adjustment	1,658	486
Other	363	260
Total non-operating income	2,247	1,459
Non-operating expenses		
Interest expenses	104	109
Loss on valuation of derivatives	81	55
Other	52	52
Total non-operating expenses	238	218
Ordinary profit	3,116	5,725
Extraordinary income		
Gain on liquidation of subsidiaries and associates	-	81
Reversal of allowance for doubtful accounts	-	264
Total extraordinary income	-	346
Extraordinary losses		
Impairment loss	226	321
Provision for loss on business liquidation	133	-
Total extraordinary losses	360	321
Net income before income taxes	2,756	5,750
Income taxes-current	1,363	2,526
Income taxes-deferred	163	(310)
Total income taxes	1,527	2,216
Net income	1,228	3,534
Net loss attributable to non-controlling interests	-	(0)
Net income attributable to owners of the parent	1,228	3,534

Quarterly Consolidated Statement of Comprehensive Income

(For the Nine-month Period)

(Million yen)

	First nine months of FY2/21 (Mar. 1, 2020 – Nov. 30, 2020)	First nine months of FY2/22 (Mar. 1, 2021 – Nov. 30, 2021)
Net income	1,228	3,534
Other comprehensive income		
Valuation difference on available-for-sale securities	(2)	(2)
Deferred gains or losses on hedges	(34)	(4)
Foreign currency translation adjustment	(252)	206
Total other comprehensive income	(289)	199
Comprehensive income	939	3,734
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	939	3,734
Comprehensive income attributable to non-controlling interests	-	(0)

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Subsequent Events

Adastria subscribes for new shares to be issued through third-party allotment conducted by Zetton, Inc. and commences tender offer for Zetton, Inc.'s shares as well as executes capital and business alliance agreement associated therewith

As was announced on December 14, 2021 in a press release titled "Adastria subscribes for new shares to be issued through third-party allotment conducted by Zetton, Inc. and commences tender offer for Zetton, Inc.'s shares (Securities code: 3057) as well as executes capital and business alliance agreement associated therewith," Adastria resolved to purchase new shares to be issued through a third-party allotment by Zetton, start a tender offer for Zetton's common stock as prescribed by the Financial Instruments and Exchange Act, and sign on December 14, 2021 a capital and business alliance agreement with Zetton in association with the third-party allotment and tender offer.

1. Summary of the third-party allotment

(1) Class of shares to be purchased:	Common stock
(2) Number of shares to be purchased:	1,621,400 shares
(3) Amount per share:	797 yen per share
(4) Total amount:	1,292,255,800 yen
(5) Scheduled payment date:	December 30, 2021

2. Tender Offer

(1) Purpose of the Tender Offer

Adastria has decided to use this tender offer to make Zetton a consolidated subsidiary with the goal of increasing the profitability of this company, which is expected to contribute to the growth of Adastria's corporate value. The addition of future business opportunities in the restaurant sector resulting from this acquisition will become one more aspect of Adastria's activities to become a source of ideas and products for a broad range of lifestyles for consumers.

(2) Profile of Zetton

Name:	Zetton, Inc.
Location:	3-12-23 Sakae, Naka-ku, Nagoya, Aichi
Title and name of representative:	Shinsuke Suzuki, Representative and President
Description of business:	Management, development and consulting of restaurants, etc.
Stated capital:	561 million yen (as of August 31, 2021)
Establishment:	October 26, 1995

(3) Tender offer period: January 4, 2022 (Tuesday) to February 16, 2022 (Wednesday) (30 business days)

(4) Tender offer price: 950 yen in cash per share of Zetton shares

(5) Number of share certificates, etc. to be purchased

Number of shares to be purchased:	1,668,000 shares
Minimum number of shares to be purchased:	958,600 shares (40.00%)
Maximum number of shares to be purchased:	1,668,000 shares (51.00%)

(6) Purchase price: 1,585 million yen (planned)

Note: The purchase price is obtained by multiplying the number of shares to be purchased in the tender offer (1,668,000 shares) by the tender offer price of 950 yen per share.

(7) Post-tender offer policy and Future Outlook

In addition to the Capital Increase through Third-party Allotment, the Company will conduct the Tender Offer for the purpose of acquiring a majority from 40% of the voting rights of the Target and making the Target its consolidated subsidiary, but the Company does not intend to delist the Target's shares. Therefore, if, as a result of the Capital Increase through Third-party Allotment and the Tender Offer, the Company acquires a majority from 40% of the voting rights of the Target, the Company does not intend to acquire additional shares of the Target at this time. If the shareholding ratio of the Tender Offeror in the Target Company Shares does not reach 51.00% as a result of the Tender Offer, the Tender Offeror will, for the purpose of effectively controlling the Target Company and making the Target Company its consolidated subsidiary, execute a memorandum of understanding that satisfies requirements for the Tender Offeror to hold a controlling interest in the Target Company, at the Board of Directors of the company on December 30, 2012.

3. Outlook concerning delisting of Zetton and reason

Currently, Zetton is listed on the Centrex market of the Nagoya Stock Exchange. The delisting of Zetton is not the intent of this tender offer and the maximum number of shares to be purchased is 1,668,000. As the purpose of the tender offer is to make Zetton a consolidated subsidiary, even if the maximum number of shares are purchased, Adastria will hold 51.00% of the voting rights of Zetton. Consequently, Adastria believes that Zetton will continue to be listed on the Centrex market after the tender offer.

3. Supplementary Information

(1) Sales for Brands and Regions

Brand / region	First nine months of FY2/22		YoY change (%)
	Sales (million yen)	Composition (%)	
GLOBAL WORK	27,606	18.8	12.6
niko and ...	19,802	13.5	5.3
LOWRYS FARM	14,872	10.1	3.9
STUDIO CLIP	14,361	9.8	5.0
LEPSIM	8,837	6.0	8.1
JEANASIS	7,543	5.1	8.4
BAYFLOW	6,654	4.5	5.8
RAGEBLUE	4,106	2.8	7.4
Others	21,588	14.8	18.7
Total (Adastria)	125,373	85.4	9.3
BUZZWIT Co., Ltd.	5,132	3.5	9.3
ELEMENT RULE Co., Ltd.	6,864	4.7	20.3
Other consolidated subsidiaries	379	0.2	55.1
Total (Japan)	137,749	93.8	9.9
Hong Kong	1,997	1.4	9.2
China	1,609	1.1	97.4
Taiwan	1,845	1.3	(0.8)
USA	3,529	2.4	43.3
Total (Overseas)	8,981	6.2	20.4
Total (Group)	146,731	100.0	10.5

- Notes: 1. Sales are 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.

(2) Sales for Merchandise Categories

Category	First nine months of FY2/22		YoY change (%)
	Sales (million yen)	Composition (%)	
Men's apparel (bottoms, tops)	21,855	14.9	17.4
Lady's apparel (bottoms, tops)	94,048	64.1	11.6
Others	30,827	21.0	2.9
Total	146,731	100.0	10.5

- 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 Feb. 28, 2021	First nine months of FY2/22				As of Nov. 30, 2021
		Opened	Changed	Closed	Increase /decrease	
GLOBAL WORK	209	1	-	(2)	(1)	208
niko and ...	144	2	-	-	2	146
LOWRYS FARM	134	4	-	-	4	138
STUDIO CLIP	183	3	-	(1)	2	185
LEPSIM	122	1	-	-	1	123
JEANASIS	72	2	-	-	2	74
BAYFLOW	56	4	-	-	4	60
RAGEBLUE	49	1	-	-	1	50
Others	259	33	-	(4)	29	288
Total (Adastria)	1,228	51	-	(7)	44	1,272
BUZZWIT Co., Ltd.	14	6	-	(1)	5	19
ELEMENT RULE Co., Ltd.	87	15	-	(8)	7	94
Other consolidated subsidiaries	3	6	-	(2)	4	7
Total (Japan)	1,332	78	-	(18)	60	1,392
Hong Kong	14	2	-	(2)	-	14
China	3	1	-	-	1	4
Taiwan	41	3	-	(2)	1	42
USA	10	1	-	(1)	-	10
Total (Overseas)	68	7	-	(5)	2	70
Total (Group)	1,400	85	-	(23)	62	1,462

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.

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.