August 9, 2022

Adastria Co., Ltd.

Frequently asked questions about FY2023/02 First quarter 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 quarter of the fiscal year ending February 28, 2023 on Friday, July 8.

■Overall financial results

Q. Why did you do well in the first quarter?

A. Sales increased as people went out more with the relaxation of restrictions. Footfall was high during our spring holiday season. As restrictions eased, consumers have become more fashion conscious, and are looking to renew their wardrobe with our product planning we have been able to take advantage of this upbeat mood. Even though we suffered a weak yen and rising raw material prices, gross margin could be maintained by curbing discounting and controlling SG&A expenses, which resulted in an increased in profit. Compared to the plan, both sales and profits were ahead of expectations.

Q. How does your gross profit margin breakdown?

A. In the first quarter, changing accounting standards rules for revenue push down our gross margin by 0.4%. Having said that, our gross margin for apparel and general merchandise improved by 0.2%, with discounts avoidance and lower tariff and logistics costs. Our new food and beverage acquisition “Zetton, Inc.” contributed an increase of 0.7%, which is 0.5% up compare to 2021 in gross profit margin.

■SG&A expenses

Q. **How were your SG&A expenses reduced?**

A. Partly due to a change of accounting standards for revenue recognition where 600 million yen were transferred to sales discounts. In fact, advertising expenses were to plan with TV commercials for our EC site “DOT st” and brand “GLOBAL WORK”. Personnel and Rent & depreciation costs increased as they are linked to our improved sales. Having said that, our ratio of personnel cost to revenue has improved. We were also able to improve our lease condition by better negotiating.

■Inventory level

Q. How was your inventory?

A. Our first quarter inventory was comfortable 5.2% higher than last year. Here in Japan, we had a slight shortage in inventory from the end of our spring holiday at the beginning of May to June with shipments impacted by the Shanghai lockdown. Since then, the situation has normalized and is now recovering. As our overseas inventory is calculated in Japanese yen, volumes have increased as the yen falls, but we are still comfortable with the situation.

■Overseas business

Q. How did your overseas businesses perform in the first quarter?

A. In Hong Kong, the COVID-19 impact lead to lower sales and profits, but it is now recovering. In mainland China, even though the opening of our shopping mall stores lead to higher sales, profits declined due to the spread of the COVID-19 from the end of February. The launch of new brands helped increase in sales and profits in Taiwan, in the USA, the sales and profits increased in line with the strong economy and increased orders of wholesale increased. Overall, overseas business are profitable and in line with our plan.

■External environment

Q. What do you predict for autumn/winter sales and exchange rate?

A. We presume there will be no significant change in demand this autumn and winter as customer demand remains strong and with customers responding well to our product planning.

Even though a weaker Japanese yen will reduce our gross margin by between 0.5 and 1%, we plan to mitigate this by avoiding price discounting, creating higher value customers, improving our merchandising and logistics and minimizing tariffs.