

November 18, 2022

Adastria Co., Ltd.

Frequently asked questions about FY2023/02 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, 2023 on Friday, October 7.

■Overall financial results

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

A. In the first quarter, sales increased as people went out more with the relaxation of restrictions. Footfall was high during our spring holiday season and our trendy product planning was successful. In the second quarter, sales were in line with plan. Despite supply chain disruptions caused by the Shanghai lockdown and re-expansion of the COVID-19. Even though we suffered a weak yen and rising raw material prices, gross margin could be improved by curbing discounting and increased sales leading to a lower SG&A ratio, which resulted in an increased in profit. Compare to the plan, both sales and profits were ahead of expectations.

Q. How does your gross profit margin breakdown?

A. In this fiscal year, 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 were flat compare to 2021, with discounts avoidance and lower tariff and logistics costs. Our new food and beverage acquisition "Zetton, Inc." contributed an increase of 1.0%.

■Overseas business

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

A. In Hong Kong, despite the impact of COVID-19, sales increased in yen terms caused

government's electronic spending coupons. In mainland China, even though sales and profits declined due to the Shanghai lockdown, we continued to open new stores in new areas in Nanjing and Chengdu. The launch of new brands and opening stores helped increase in sales 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.

■Pricing policy

Q. What has been the impact of negative exchange rate and raw material price increase?

How do you plan to revise your product prices?

A. Even though these have had a negative impact on gross profit, we have mitigated the problem by moving production to ASEAN and standardizing fabric across brands which has given us economy of scale. Even though prices have risen, they are linked to improved value in new items.

■Licensing business

Q. Why are you licensing the FOREVER21 brand?

A. FOREVER21 still has a strong brand recognition in the Japan market. By using our strong supply chain and offering fashion products tailored to the Japanese market, we can rebuild a strong brand. We hope we can accumulate know-how in licensing and expand it further in the future. As we produce the products, we can control the brand.