

FY2/2016 Earnings Announcement & New 3-Year Plan

Adastria Co., Ltd.
<http://www.adastria.co.jp/>

Consolidated Income Statement

ADASTRIA

(Millions of Yen)

Consolidated	FY2/2015		FY2/2016			
	Results		9/30 Announced Result Forecast	Results	Ratio	Y/Y
		Ratio				
Net Sales	184,588	100.0%	198,000	200,038	100.0%	108.4%
Gross Profit	102,524	55.5%	-	113,266	56.6%	110.5%
SG&A Expenses	96,542	52.3%	-	97,261	48.6%	100.7%
Advertising & Promotion	6,424	3.5%	-	5,805	2.9%	90.4%
Personnel	32,176	17.4%	-	33,186	16.6%	103.1%
Rent & depreciation	39,552	21.4%	-	40,030	20.0%	101.2%
Amortization of Goodwill	2,394	1.3%	-	2,213	1.1%	92.4%
Others	15,995	8.7%	-	16,026	8.0%	100.2%
Operating Income	5,981	3.2%	14,000	16,004	8.0%	267.6%
Aداستريا(Non-consolidated, Amortization of Goodwill Excluded)	10,036	-	-	17,551	-	-
Overseas business	▲ 1,351	-	-	▲ 238	-	-
N9&PG	103	-	-	▲ 190	-	-
Aداستريا Logistics	-	-	-	203	-	-
Ordinary Income	6,452	3.5%	14,300	16,185	8.1%	250.8%
Net Income	503	0.3%	6,800	9,122	4.6%	-
EBITDA	15,732	8.5%	22,700	24,612	12.3%	156.4%
Depreciation & Amortization	7,356	4.0%	6,500	6,394	3.2%	86.9%
Amortization of Goodwill	2,394	1.3%	2,200	2,213	1.1%	92.4%
Capital Expenditure	10,936		7,000	6,364		2

Consolidated Balance Sheet

ADASTRIA

(Millions of Yen)

Consolidated	End of 2/2015		End of 2/2016		
		Ratio		Ratio	Increase or Decrease of
Current Assets	34,488	41.2%	45,465	50.3%	+10,976
Cash and Deposits	7,677	9.2%	19,460	21.5%	+11,783
Inventories	14,488	17.3%	15,076	16.7%	+587
Fixed Assets	49,253	58.8%	44,988	49.7%	▲4,264
Plant and Equipment	12,908	15.4%	11,215	12.4%	▲1,692
Goodwill	7,921	9.5%	5,493	6.1%	▲2,427
Total Assets	83,742	100.0%	90,454	100.0%	+6,712
Liabilities	37,508	44.8%	37,171	41.1%	▲336
Debt	3,753	4.5%	1,867	2.1%	▲1,886
Net Asset	46,233	55.2%	53,282	58.9%	+7,049
Treasury Shares	▲ 406	-0.5%	▲ 1,824	-2.0%	▲1,417

FY2/2017 Forecast (Consolidated)

ADASTRIA

(Millions of Yen)

Consolidated	FY2/2016			FY2/2017 Forecast						
	Results			1H		2H		Full-year		
	1H	2H			Y/Y		Y/Y	Ratio	Y/Y	
Net Sales	97,032	103,006	200,038	99,700	102.7%	109,200	106.0%	208,900	100.0%	104.4%
Operating Income	8,132	7,872	16,004	8,100	99.6%	8,900	113.1%	17,000	8.1%	106.2%
Ordinary Income	8,324	7,861	16,185	8,200	98.5%	9,100	115.8%	17,300	8.3%	106.9%
Net Income	4,156	4,966	9,122	4,500	108.3%	5,500	110.8%	10,000	4.8%	109.6%
ROE	-	-	18.3%	-	-	-	-	17.7%	-	▲ 0.6p
EBITDA	12,272	12,339	24,612	11,900	97.0%	13,000	105.4%	24,900	11.9%	101.2%
Depreciation & Amortization	3,019	3,375	6,394	2,700	89.4%	3,000	88.9%	5,700	2.7%	89.1%
Amortization of Goodwill	1,121	1,092	2,213	1,100	98.1%	1,100	100.7%	2,200	1.1%	99.4%

Capital Expenditure

6,364

8,600

Store Opening Plan(Full-year)

	FY2/2016 Results				
	The beginning of the period	Open	Change	Close	Term End Total
GLOBAL WORK	178	8	0	▲ 2	184
LOWRYS FARM	168	6	0	▲ 17	157
niko and ...	116	8	0	▲ 1	123
studio CLIP	162	11	0	▲ 2	171
LEPSIM	125	8	0	▲ 3	130
JEANASIS	89	1	0	▲ 7	83
RAGEBLUE	71	3	0	▲ 15	59
Heather	75	2	0	▲ 10	67
Others	263	17	0	▲ 34	246
Adastria Total	1,247	64	0	▲ 91	1,220
(Web Stores)	(45)	(1)	(0)	(▲5)	(41)

FY2/2017 Full-Year Plan				
The beginning of the period	Open	Close	Term End Total	
184	12	▲ 2	194	
154	3	▲ 3	154	
123	6	▲ 1	128	
171	6	0	177	
130	5	▲ 2	133	
83	0	▲ 4	79	
59	1	▲ 2	58	
76	3	▲ 3	76	
240	12	▲ 12	240	
1,220	48	▲ 29	1,239	
(41)	(0)	(0)	(41)	

Subsidiaries	3	0	▲ 3	0	0
(Web Store)	(1)	(0)	(▲1)	(0)	(0)

Hong Kong	24	5	1	▲ 3	27
China	34	17	0	▲ 11	40
Taiwan	26	2	0	▲ 1	27
Singapore	10	0	▲ 1	▲ 9	0
Korea	12	5	0	▲ 7	10
Overseas	106	29	0	▲ 31	104
(Web Stores)	(7)	(5)	(0)	(▲5)	(7)

27	3	▲ 2	28	
40	12	▲ 3	49	
27	3	0	30	
-	-	-	-	
10	0	▲ 1	9	
104	18	▲ 6	116	
(7)	(0)	(0)	(7)	

Total (Consolidated)	1,356	93	▲ 3	▲ 122	1,324
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1,324	66	▲ 35	1,355	
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Returns to stockholders

(Millions of Yen)

	FY2/2012	FY2/2013	FY2/2014	FY2/2015	FY2/2016	FY2/2017 (Forecast)
Dividend per share (Yen)	60	60	37.5	37.5	65	75
(Interim Dividend)	(25)	(25)	(25)	(15)	(20)	(35)
Total amount of dividends	2,851	2,679	1,697	1,821	3,138	3,611
Consolidated Net profit	6,789	5,508	▲4,731	503	9,122	10,000
Amortization of Goodwill	0	64	8,326	2,937	2,213	2,200
Dividend payout ratio			-	361.5%	34.5%	36.1%
(Amortization of Goodwill Excluded)	42.0%	49.7%	(47.8%)	(52.9%)	(27.8%)	(29.6%)
Stock Buyback	0	5,947	4,000	0	1,395	-

Progress Review of ACE18*

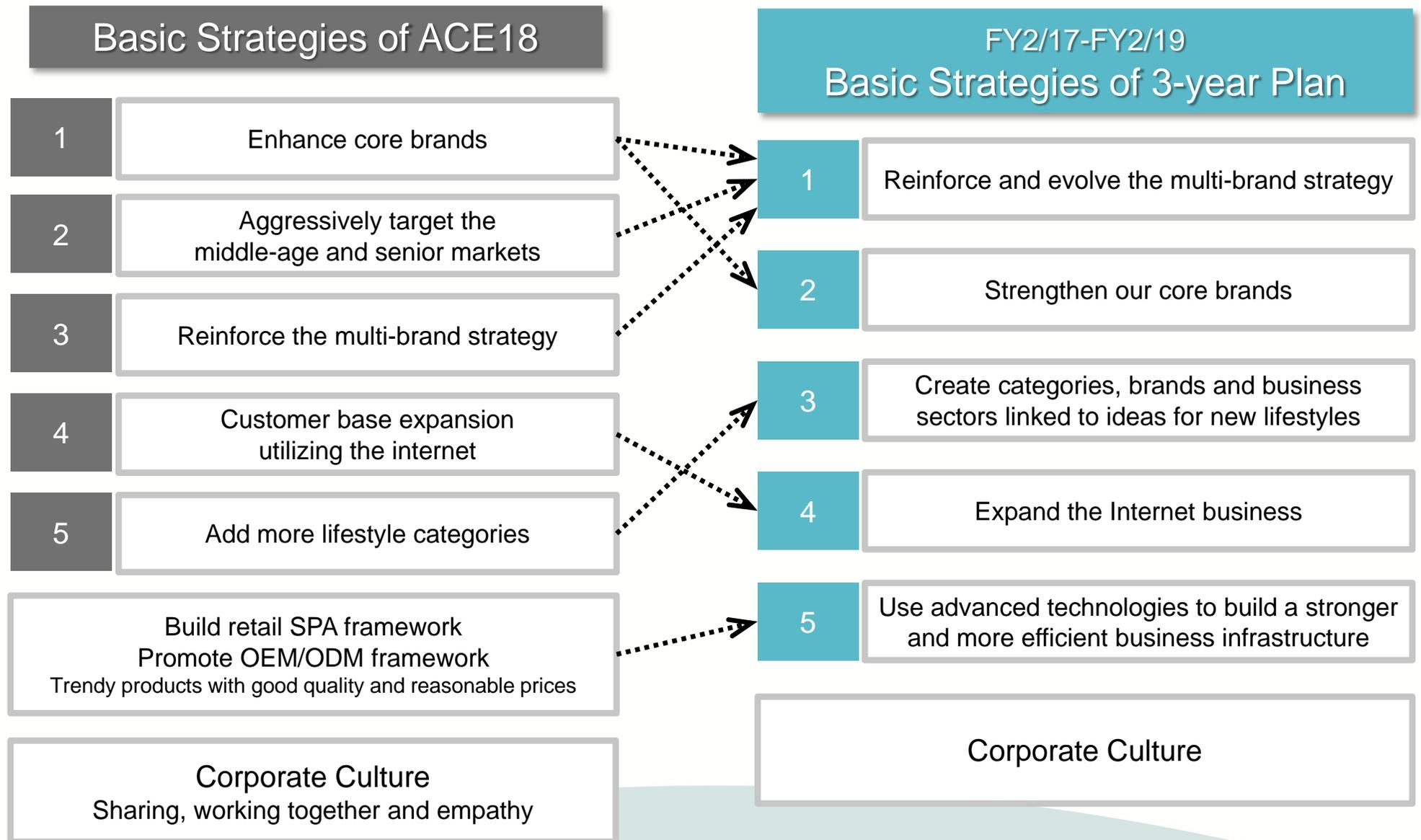
	FY2/18 Targets	FY2/16 Results
Net sales	¥210.0 billion	¥200.0 billion
Operating income	¥14.8 billion	¥16.0 billion
Operating income margin (%)	7.0%	8.0%
EBITDA	¥24.0 billion	¥24.6 billion
ROE	13.8%	18.3%

Target profit achieved in the 1st year

- Enhanced power of core brands
- Improved products' competitiveness & customer service capabilities
- Strong performance of online business
- Lowered cost of SG&A

*ACE18 (Adastria Change/Challenge/Collaboration for Evolution 2018) is the medium-term management plan announced in April 2015.

Advancing to the Next Stage after ACE18 ADASTRIA



➤ Strengths and weaknesses

Strengths

Higher volume of sales makes production, store development and back office operations more efficient

Able to meet needs of customers in both mass and core markets by responding quickly to changes in markets

Weaknesses

Unable to capture benefits of larger scale of operations due to the wide variety of products and services

Complicated value chain creates differences in marketing accuracy among brands and marketing personnel

Actions

- Consolidate factories
- Develop and consolidate materials
- Create a framework for supporting sales activities for all brands

⇒ **Started in 2015**

- Analyze, standardize and systemize value chain processes

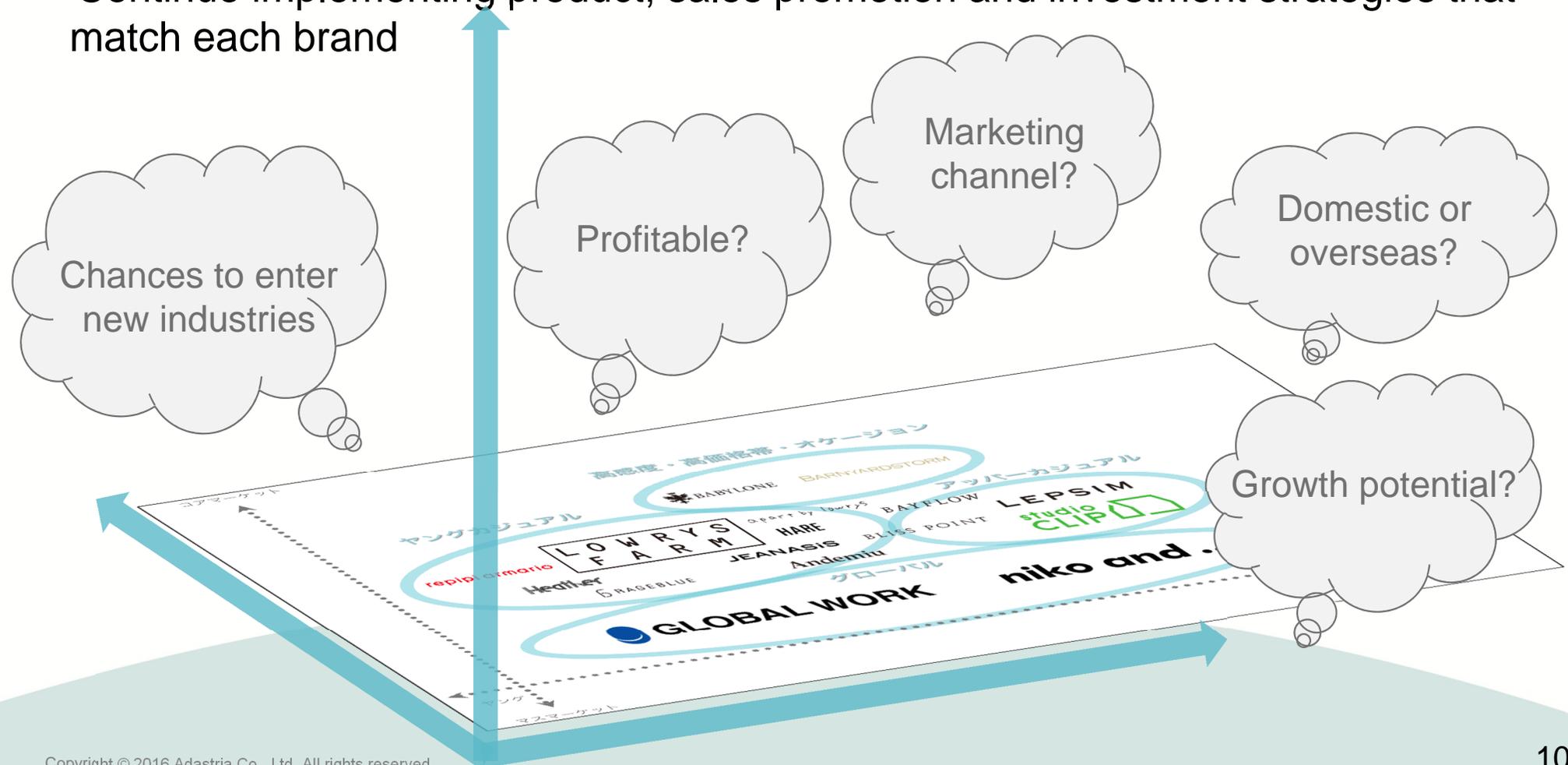
⇒ **Strategy 5**

➤ Brand portfolio management

Analyze the brand portfolio by using conventional brand characteristics as well as creative approaches from the standpoint of new markets

⇒ Invest in growing categories and blank markets

⇒ Continue implementing product, sales promotion and investment strategies that match each brand



GLOBAL WORK

FY2/16 Sales: ¥36.1 billion (+19.7% YoY)

Establish position as a global brand

➤ Continue in-house manufacturing of core products and improve marketing accuracy

- Enhance “MD development that creates value”

Consistency:

Material ⇔ Shop VI ⇔ Practical Use

- Core concept:

FASHION + FUNCTION = FEELING



GLOBAL WORK

➤ New Shops and Larger Shops

- **Flagship Shop and Large-scale Shop Model**

- Expression of brand concept
- Open shops of over 800m²

- **Urban Shop Model**

- Increase brand recognition and convenience
- Open shops of about 330m² around main stations



UEHOMMACHI YUFURA STORE

➤ Increase Brand Recognition

- Carry out promotions that share core values and increase the desire to make a purchase



Event in AEON LAKETOWN STORE

niko and ...

FY2/16 Sales: ¥22.8 billion (+11.3% YoY)

Become a global lifestyle brand originating in Japan

➤ Establish a Business Model for Large Shops

Upgrade content to the level needed for a global network of large stores

- More trendy merchandise and a more refined sales area for women
- Larger and better selection of men's products and accessories
- Full-scale development of the furniture category

➤ Flagship Shop Promotional Activities

- Disseminate information from niko and... TOKYO



niko and ... FURNITURE & SUPPLY

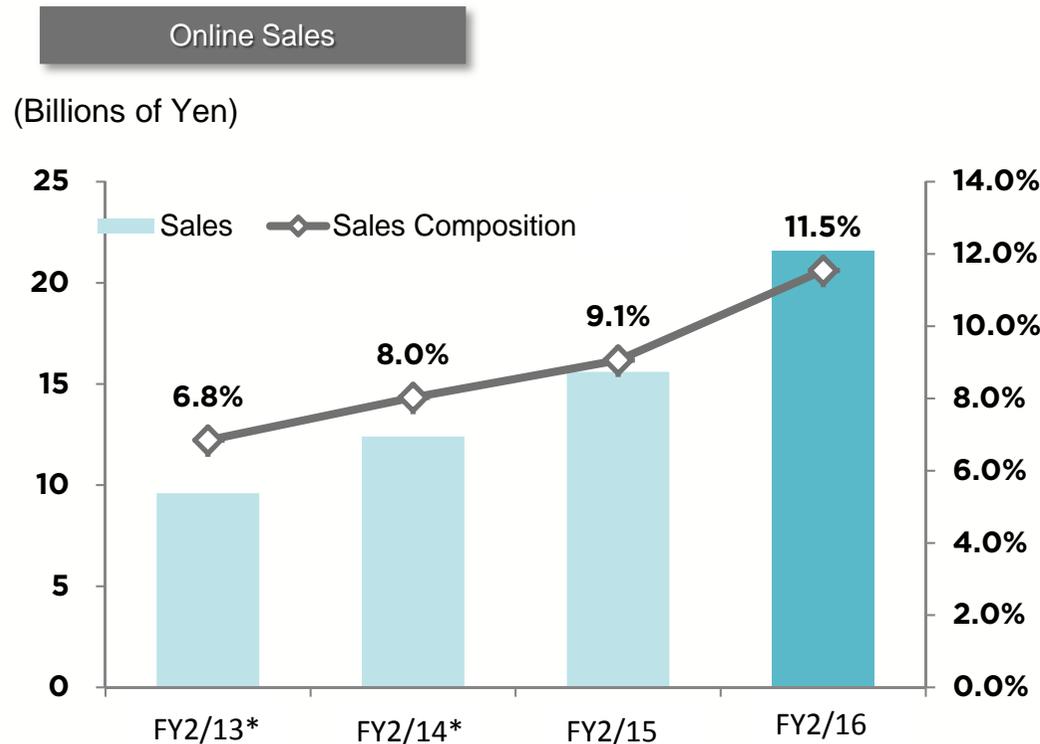
Strategies 3: New Categories, Brands and Industries

- Invest to increase sales and profits
 - ⇒ 1. Become profitable within 3 years
 - 2. Eliminate accumulated loss within 5 years
 - 3. Consider terminating businesses unable to achieve these goals

- Invest in new functional departments, areas, and industries
 - ⇒ Consider both profits and synergies

- Invest in infrastructure (IT systems and logistics)
 - ⇒ Confirm that investments will improve overall profitability and cash flows

- **Online Business** FY2/16 Sales +38.6% YoY 11.5% of total sales
 - Number of users: More than 4.4 million
 - Strong performances of Adastia & partner websites (ZOZOTOWN and others)



Actions during the past 3 years

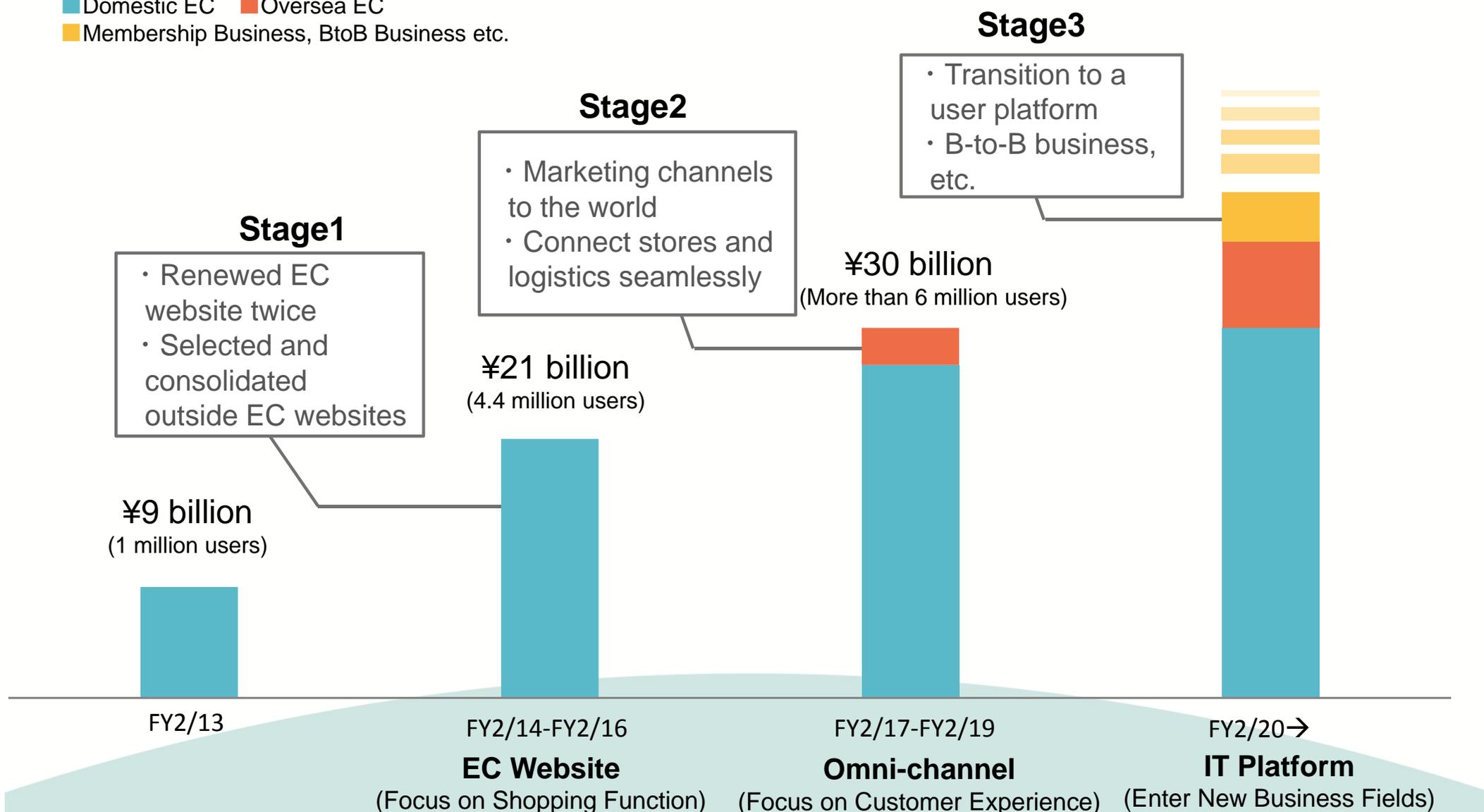
- Reinforced shopping functions
- Relation-building with outside websites
- Accumulated know-how and increased efficiency by moving filming, logistics and data analysis operations in-house
- Cooperation with brick-and-mortar shops to attract more users

* Includes sales of TRINITY ARTES before merger

Strategies 4: Expand Online Business

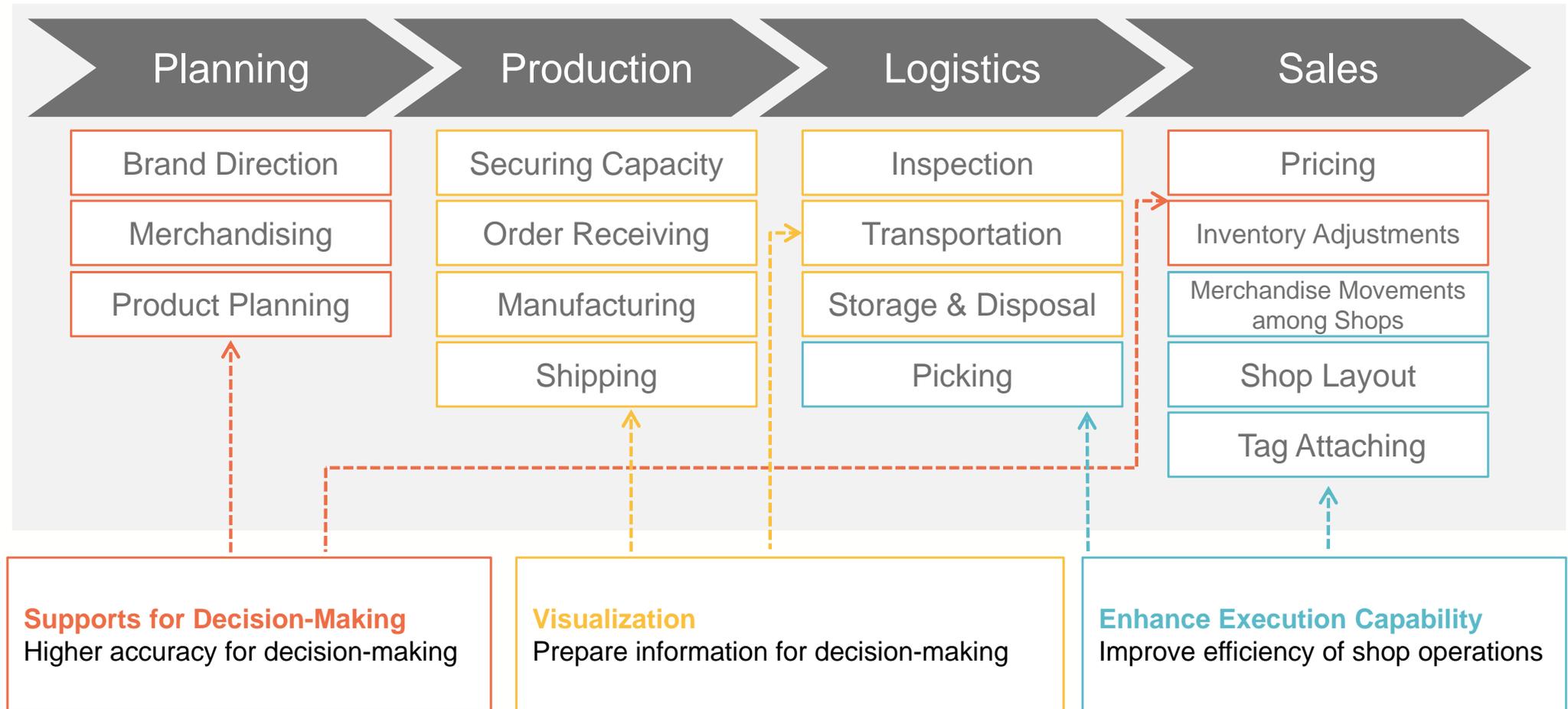
➤ Vision for online business expansion - Transitioning to a user platform

- Domestic EC
- Oversea EC
- Membership Business, BtoB Business etc.



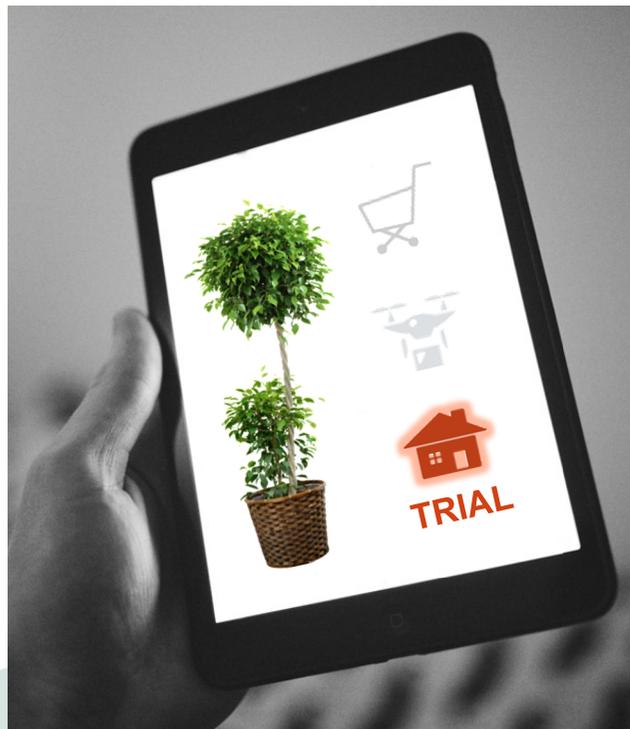
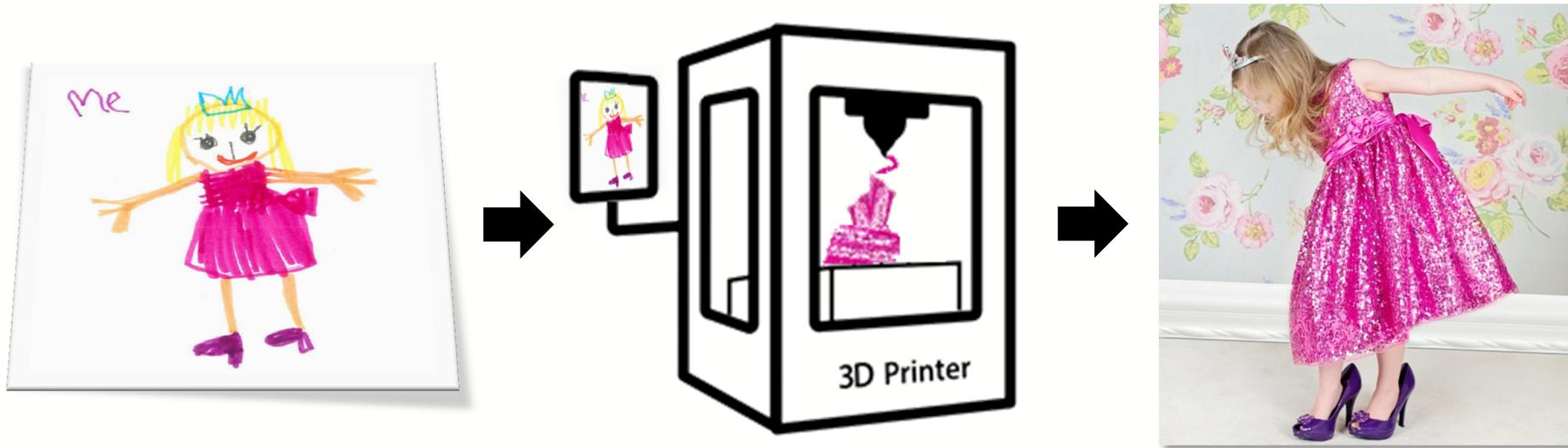
Strategy 5: Introduce Technology

➤ Consolidate business infrastructure



Strategy 5: Introduce Technology

➤ Next Generation of Technology Innovation



Targets of the 3-year Plan

	FY2/16
Net sales	¥200.0 billion
Operating income	¥16.0 billion
Operating income margin (%)	8.0%
ROE	18.3%
Cash flows	¥13.8 billion
Capital expenditures	¥6.4 billion
Free cash flows	¥7.4 billion

FY2/17-FY2/19 3-Year Plan Targets
Average annual growth > 5% (existing businesses)
-
>10% (existing businesses)
Around 15%
¥48.0 billion
¥28.0 billion
¥20.0 billion
+ α New business and other investments

Cautionary statement with respect to forward-looking statements

Forward-looking statements in this report are based on currently available information and certain assumption judged to be reasonable. Actual results may differ significantly from forecasts for a number of factors.

Other points to consider

The amounts in this report are rounded down less than million yen. The percentage calculates from the original data.

ADASTRIA