



Adastria Corporate Material

2021.11.19

A D A S T R I A
— *Play fashion!*

1. Our Business & Strategy



Our Mission and Business

Mission

Play fashion!

Fashion that inspires you.
Fashion that creates a vibrant community.
Fashion for living your best life

Multi Brands × Multi Categories



Our History

- We started out by buying and selling men's clothing, and after changing our business model several times, we are now involved in everything from manufacturing to retailing.

4 major transformations in the business model

Changing by the time to continue growing

1953

Established Fukudaya Clothes Store Inc. in Mito, Ibaraki Prefecture.
Began retail sales of men's clothing.



2015

Changed company name to Adastria Co., Ltd.

We Arrived In Shibuya-2017.

Change 1 1973

Opened Men's casual clothing store VEGA.

Enter into the blank market of Men's casual wear in Mito city.



Change 2 1982

Opened jeans and casual fashion store POINT.
Transformed POINT into chain stores in '84.

Scrap the old frame work.
Shifted to chain store operations.



Change 3 1997

Started rolling out LOWRYS FARM store brand

Developed own store brand.
Transformed into a OEM/ODM-type casual fashion chain.



Change 4 2010

Transformed into vertically integrated SPA company.

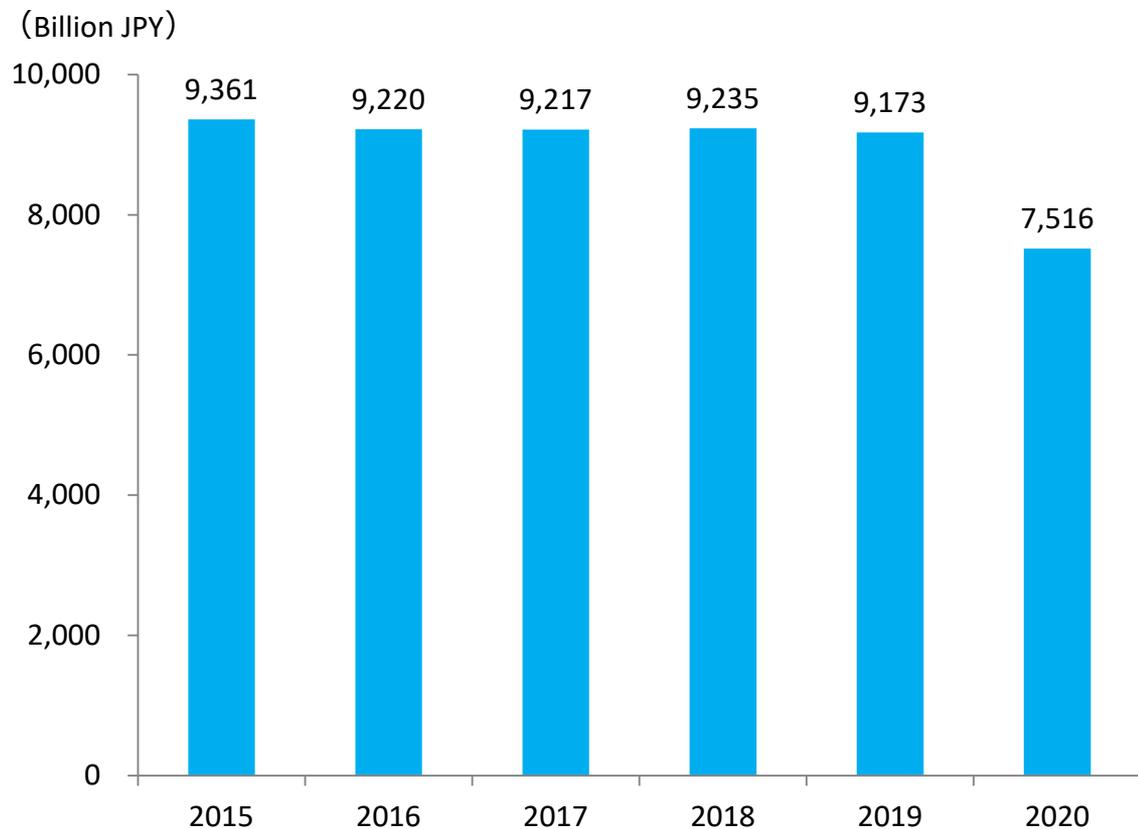
Initiated projects for vertical integration,
including in-house planning and production



ADASTRIA HISTORY

Domestic Apparel Market

- Before the COVID-19 pandemic, the domestic apparel market*1 was slowly declining at a CAGR of -0.5% from 2015 to 2019.
- While the pandemic caused a significant decline, the nine major players increased their market share.



*1 Source: Yano Research Institute Ltd. "Research on the domestic apparel market (2021)"
Announced on October 12, 2021 Note: Based on retail value

(Million JPY)

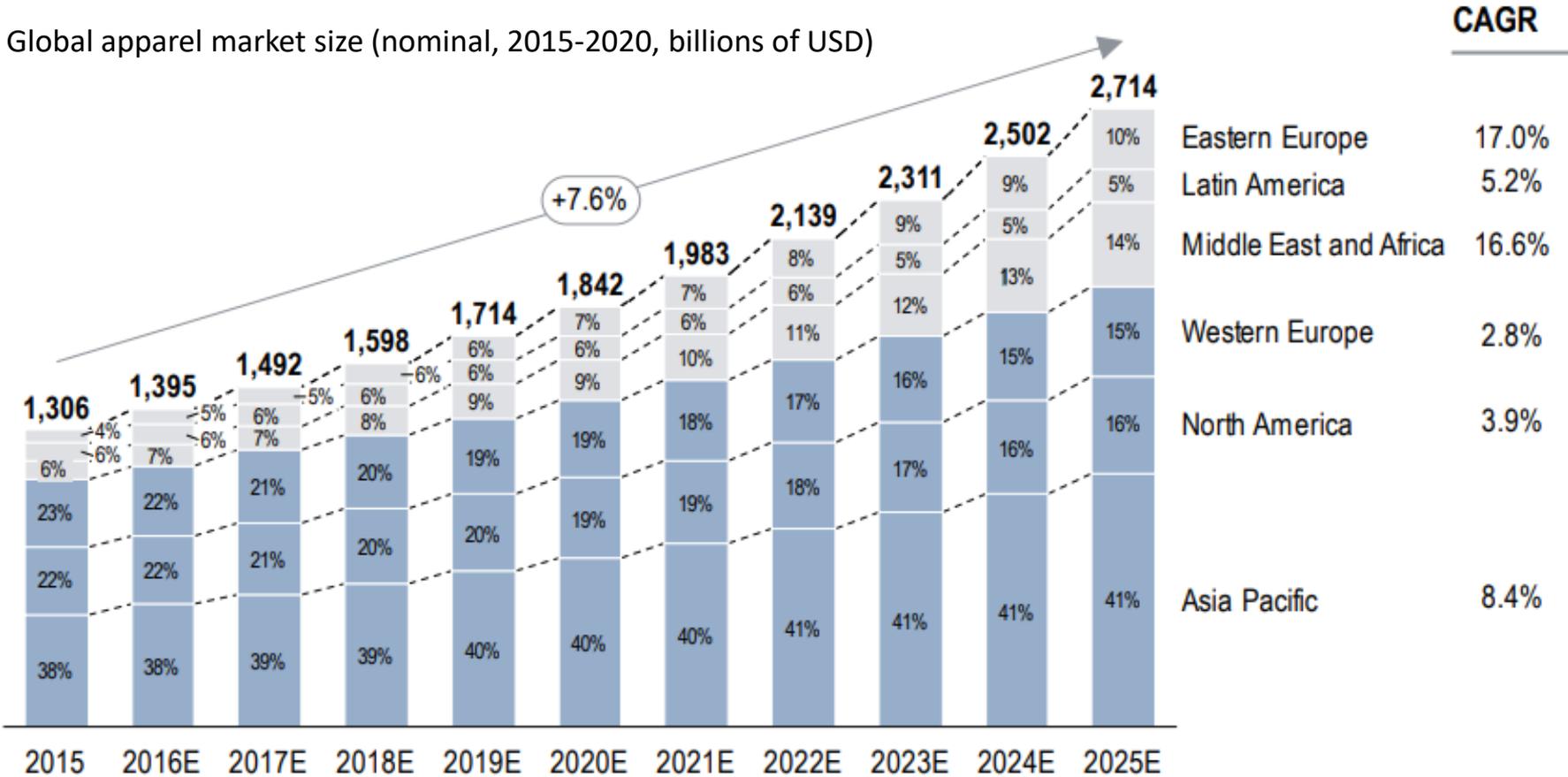
Major 9 companies sales in 2020	
Company F	842,628
Company S	536,621
Adastria	173,161
Company W	161,188
Company U	121,712
Company T	109,907
Company O	105,055
Company R	91,300
Company P	75,540
Market share of 9 major companies	29.5%
Last year share of 9 major companies	26%

*2 Based on our research, domestic apparel sales from each company's financial data, some of which are estimates

Global Apparel Market

- According to forecasts made prior to the pandemic, the global apparel market is expected to continue growing

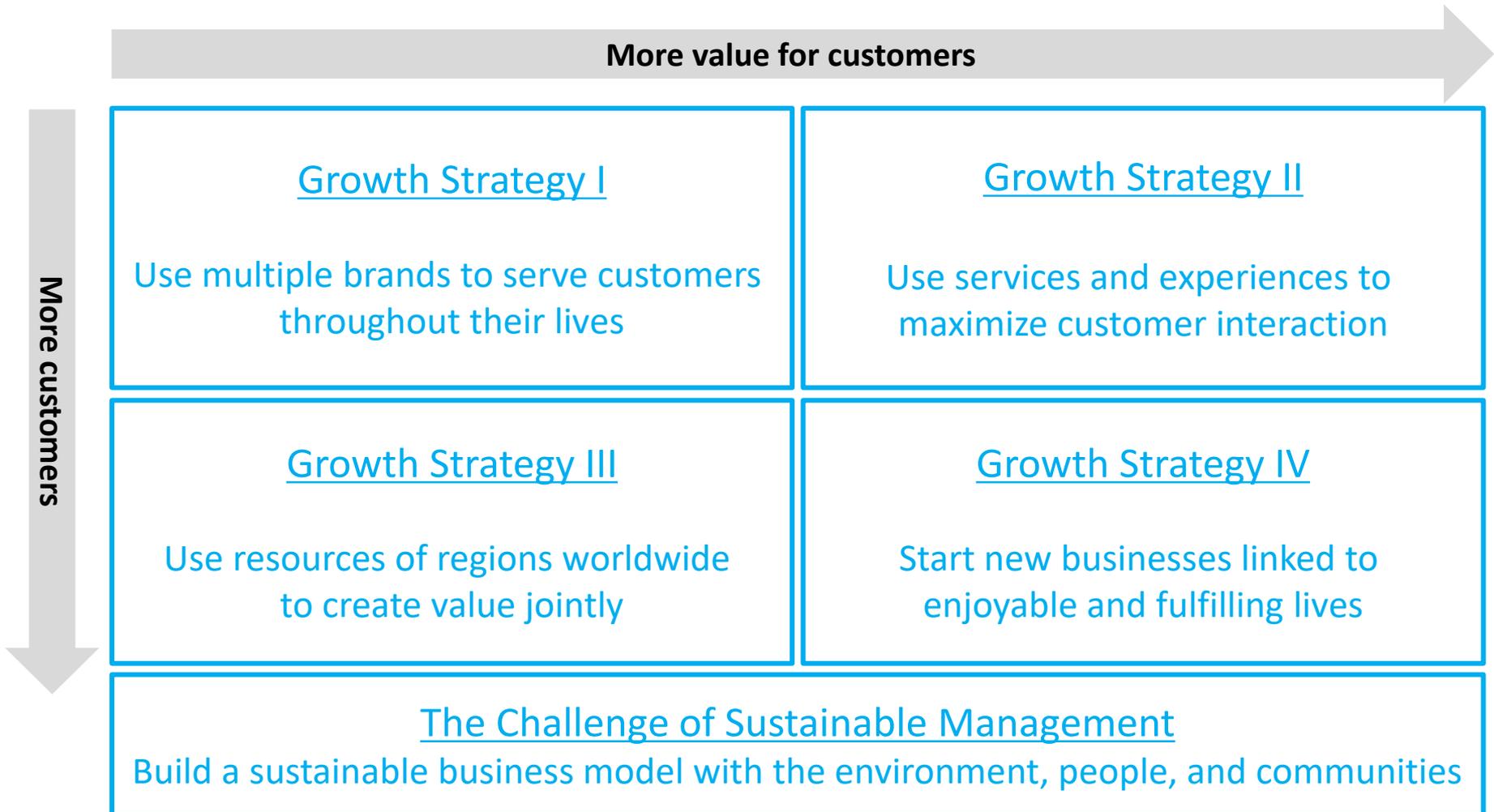
Global apparel market size (nominal, 2015-2020, billions of USD)



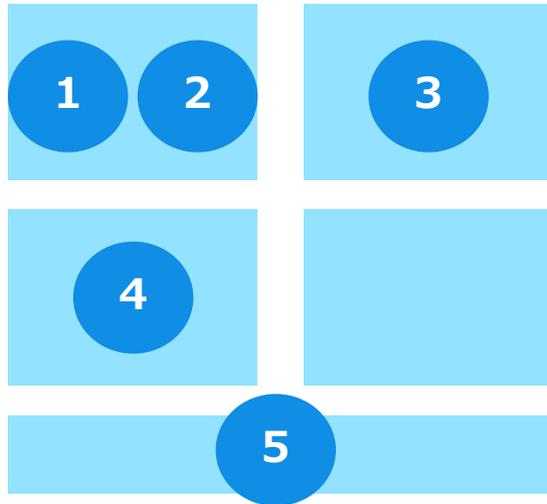
Source: Euromonitor, Roland Berger

Our Growth Strategy

- Our growth strategy is to expand our customer base and to extend the value we provide.



Investment Highlight



1

Expanding TAM (Total Addressable Market)

2

Creating a framework for brand creation and operation

3

Growing Adastria EC

4

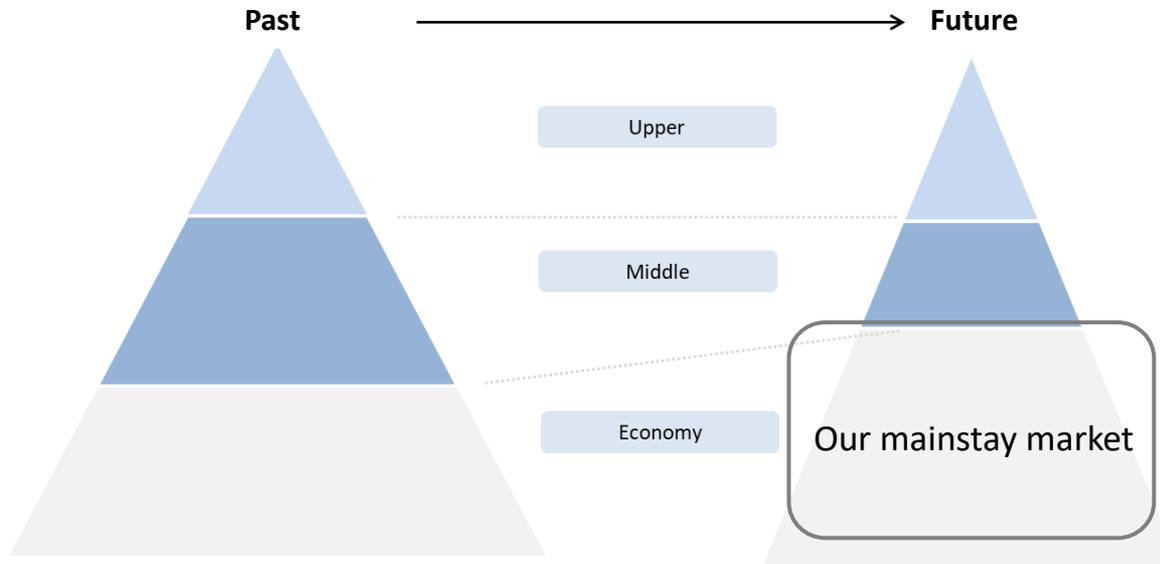
Growing in overseas markets

5

ESG Initiatives

Changes in the domestic market

- The domestic market is contracting, but we have an edge in our mainstay economy market.



Source: Roland Berger

• The middle market contracted the most, while the economy market (less than 5,000 yen per customer) remained stable

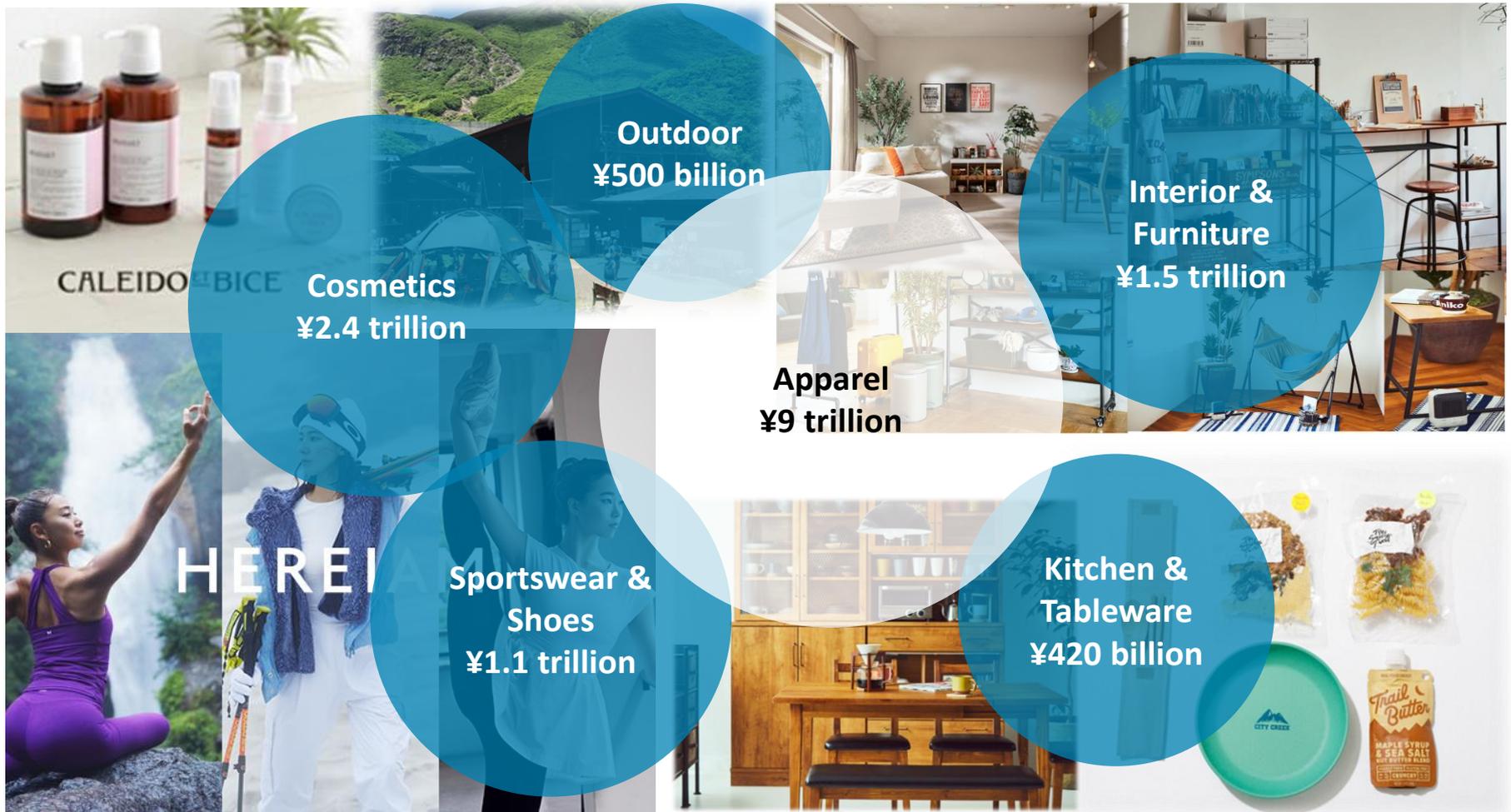


• Price per clothing item has fallen, but is higher than our mainstay price range

Expanding demand for fashion

1

- With the increasing use of social networking sites, demand for fashionable products is expanding beyond apparel



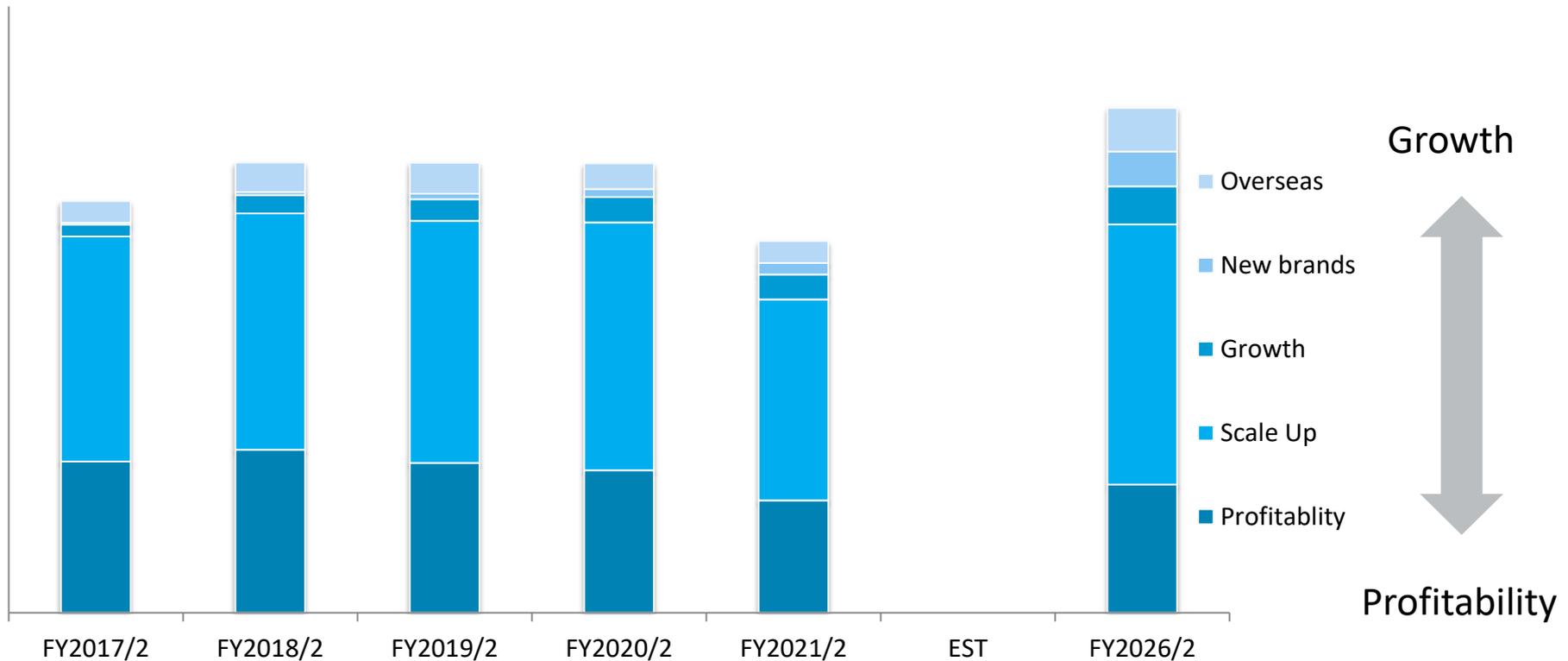
→ We are finding success in expanding TAM* through category expansion

* TAM: Total Addressable Market

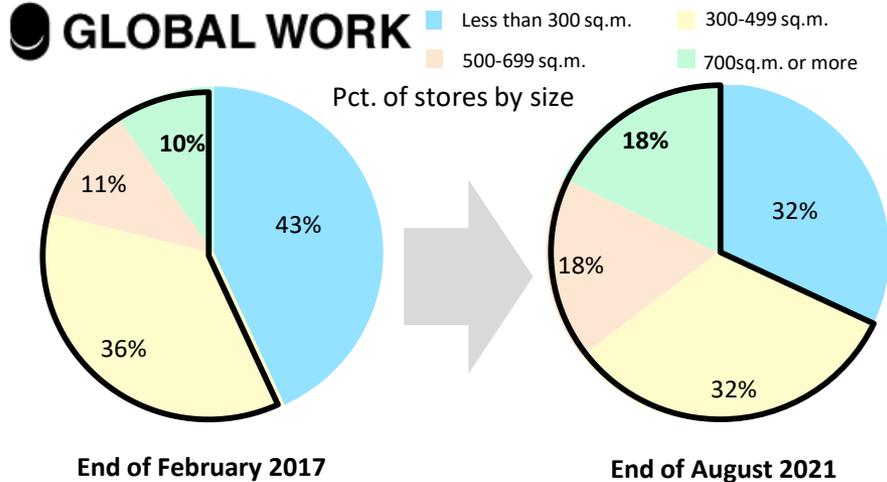
Growing our brand portfolio

- Each brand targets a different market size and strategy. We are positioned to grow our entire portfolio.
- Invest cash generated by profit-making brands into growth brands and new brands.
- We have an extensive pipeline for creating new brands. (There are currently 22 brands in development.)

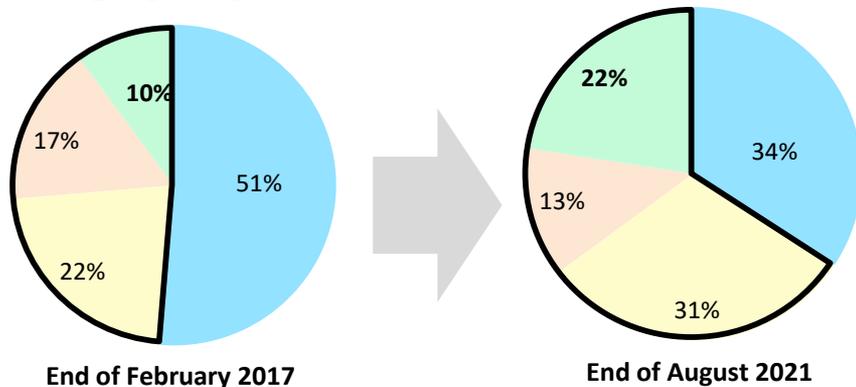
(Million JPY)



Large stores for major brands

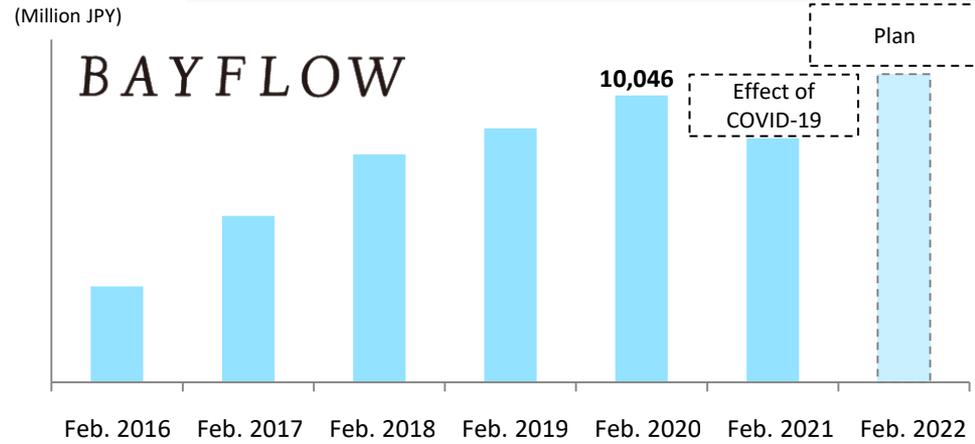


niko and ...



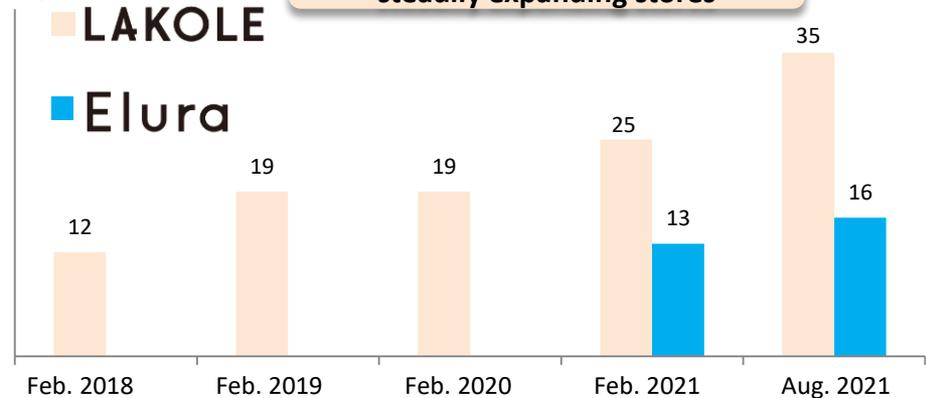
New stores for growth-driving brands

Sales of ¥10 billion only five years after brand was launched



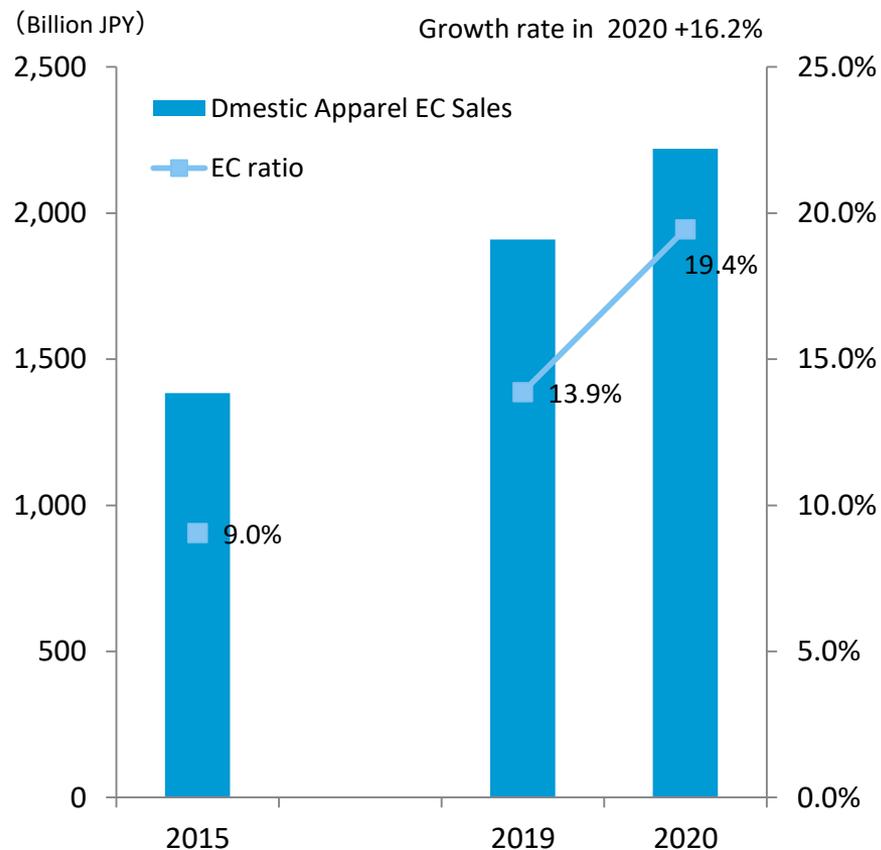
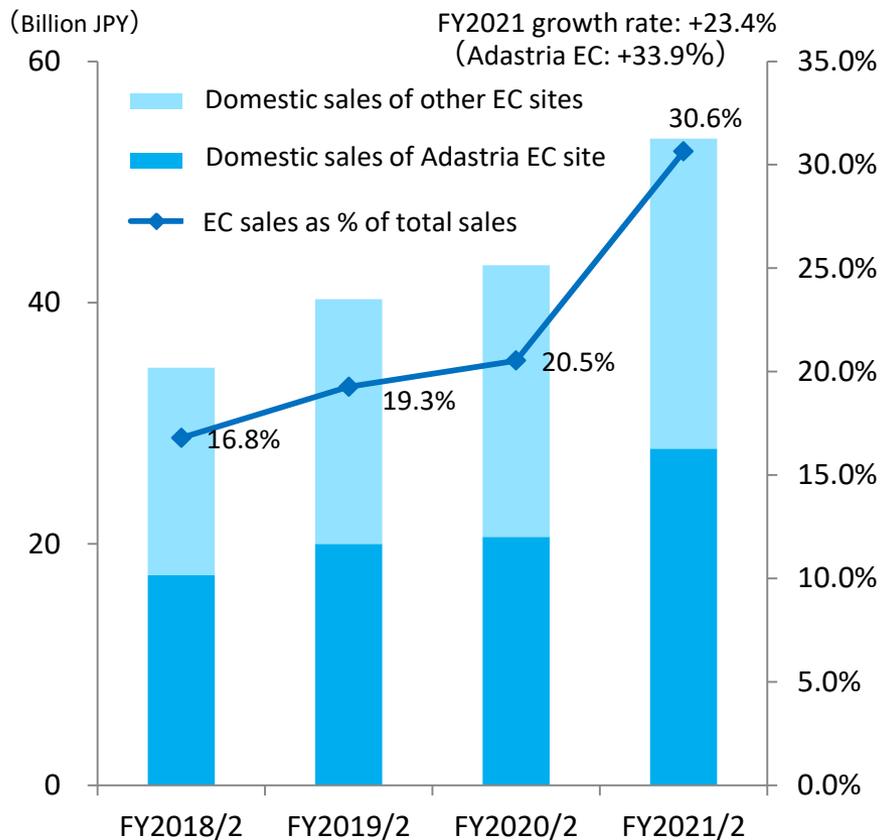
(Number of stores)

Growth brands are also steadily expanding stores



Growth potential of Adastria EC

- Growth rate of Adastria EC sales exceeds that of the overall apparel EC market in Japan.
- We will continue our growth by handling more categories and boosting EC product offerings.



- Staff's fashion coordination posts became popular
 - About 3,500 store staff members post 3,000 photos and videos of their outfits every day.
 - About half of Adastria EC sales are generated through the staff board, with top staff contributing over ¥100 million in annual sales.
 - We carried out proactive sales promotions using TV commercials this fiscal year, and became the No. 1 app in the shopping category.

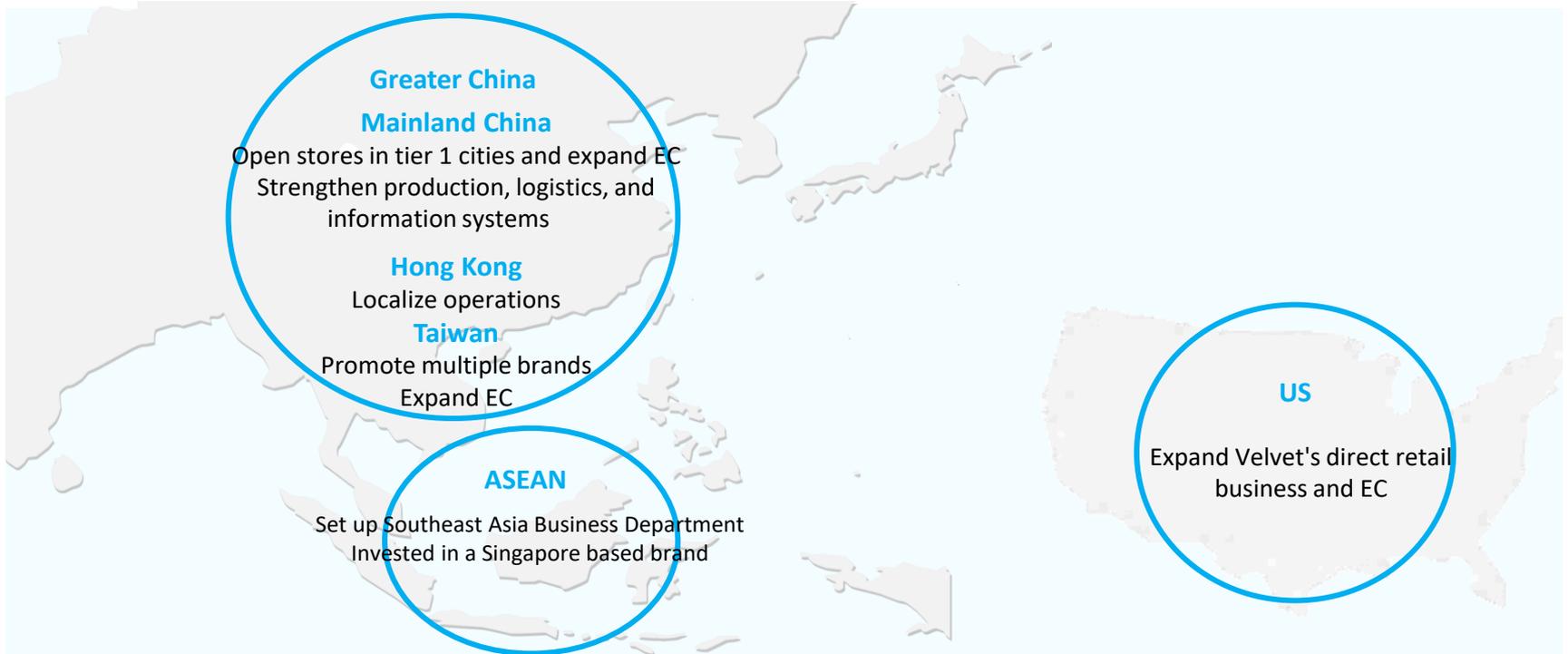
STAFF BOARD



Participating staff: **687** → **3,522**

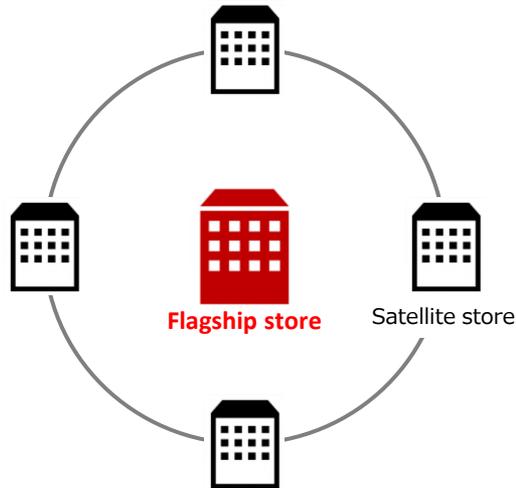
Growth potential in overseas markets

- Asia is an especially important high-growth market. We learned from past experiences and have already revised our strategy.

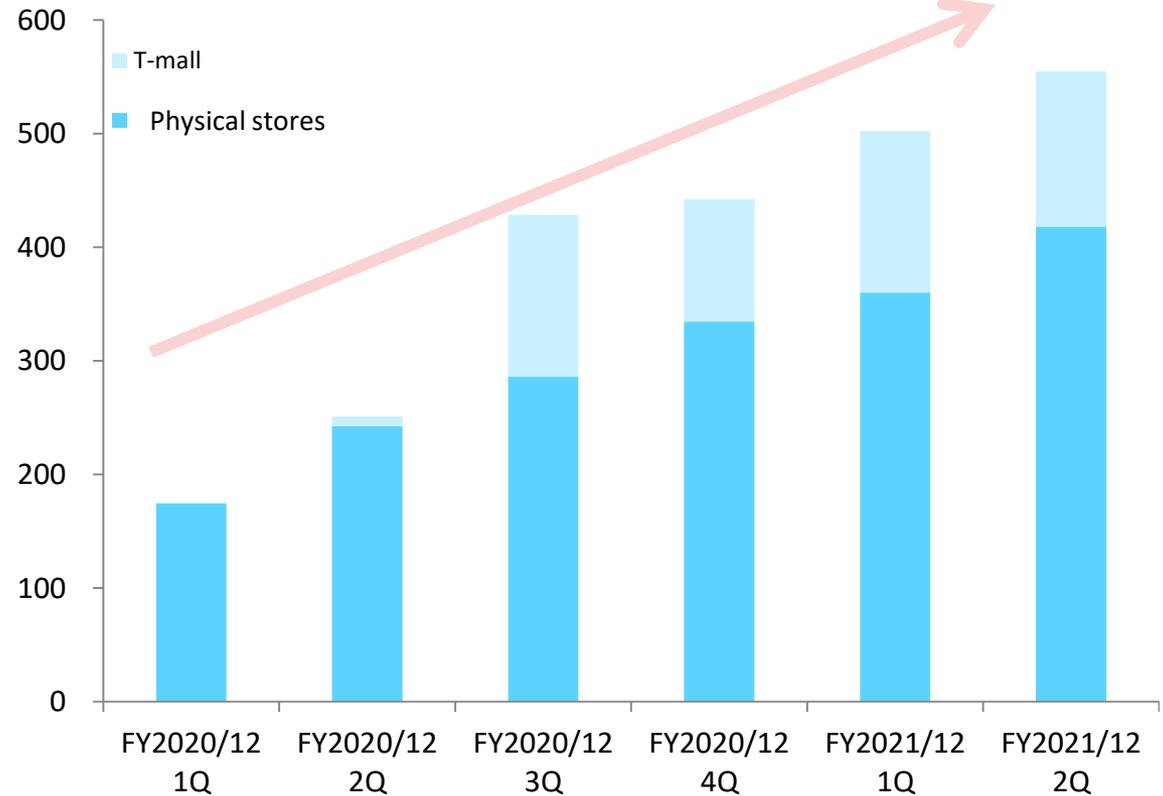


↓	Past realizations	Entered into various regions	Rolled out Japanese merchandise laterally	Implemented Japanese methods	Managed from Japan
	Current strategy	Asia-first resource allocation	Localized merchandise	Localized store strategy	Managed by local teams

- In mainland China, we have implemented a dominant strategy of first gaining brand recognition through our flagship store in Shanghai, and then boosting profitability through satellite stores in the surrounding areas.
- After establishing this model in Shanghai, we will expand into other cities in mainland China.



(Million JPY)



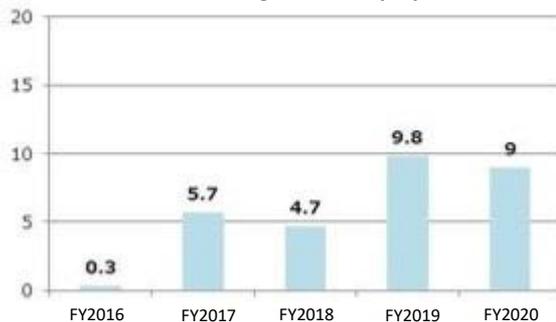
- Going forward, consumers will be more selective based on environmental measures, and regulations will be tightened.
- We will take preemptive action and use this as an opportunity to expand our market share.
- We have joined the Japan Sustainable Fashion Alliance, which aims for zero incineration and a carbon neutral 2050.

E

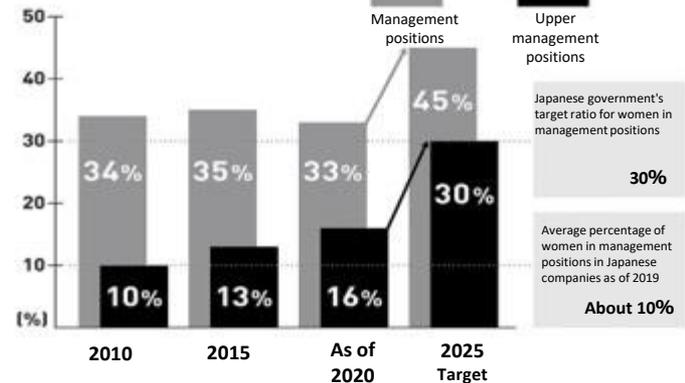


(ton)

Amount of clothing collected through our clothing collection project

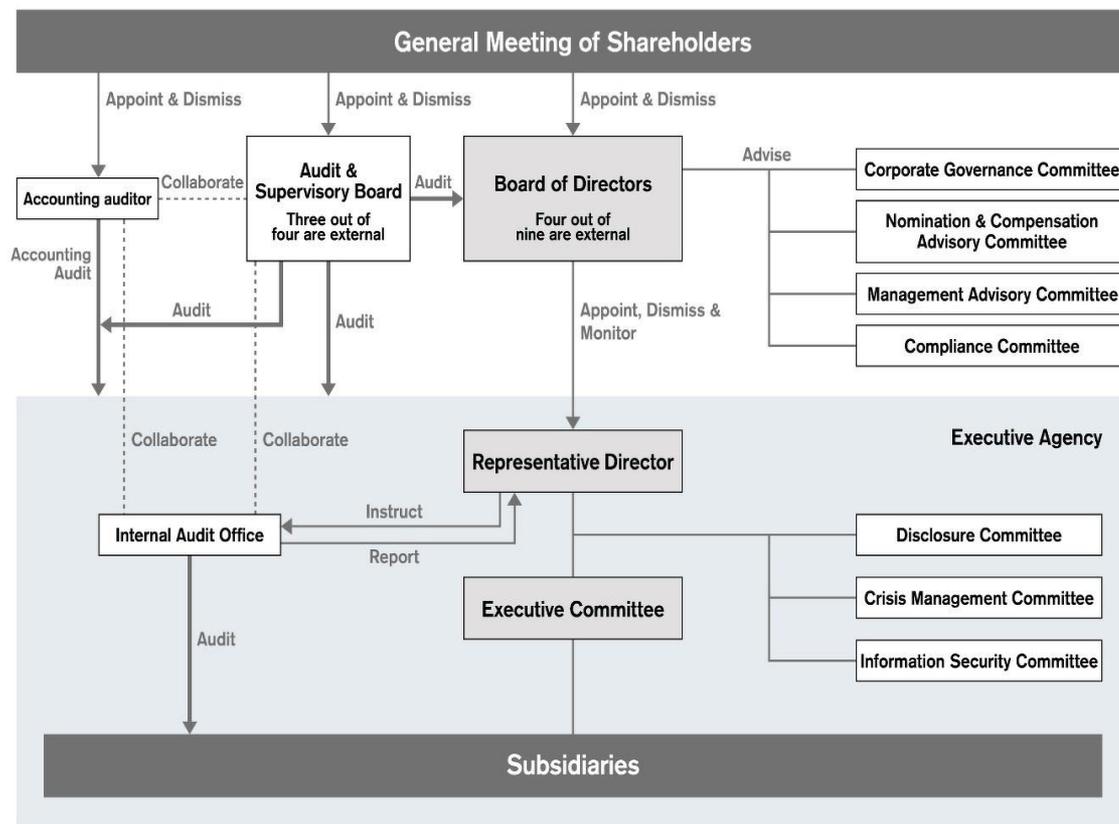


S



- Functioning checks and balances with five internal directors
- Performance-linked compensation and stock-based compensation already introduced
- Changed president in May 2021 in preparation for management succession

Corporate Governance Structure



Title	Name	Back ground
Chairman	Michio Fukuda	Owner & Founder
President	Osamu Kimura	Long experience in apparel business, entrepreneurship
Managing Director	Masayuki Kindo	Experience in a financial institution
Managing Director	Yoshiaki Kitamura	Long experience in apparel business, Overseas
Director	Taiki Fukuda	Business and sustainability knowledge

Diverse management team

Directors 9

Auditors 4

Ratio of outside directors (Number of outside directors: 4) 44.4%

Ratio of female directors and corporate auditors (3 women) 23.1%



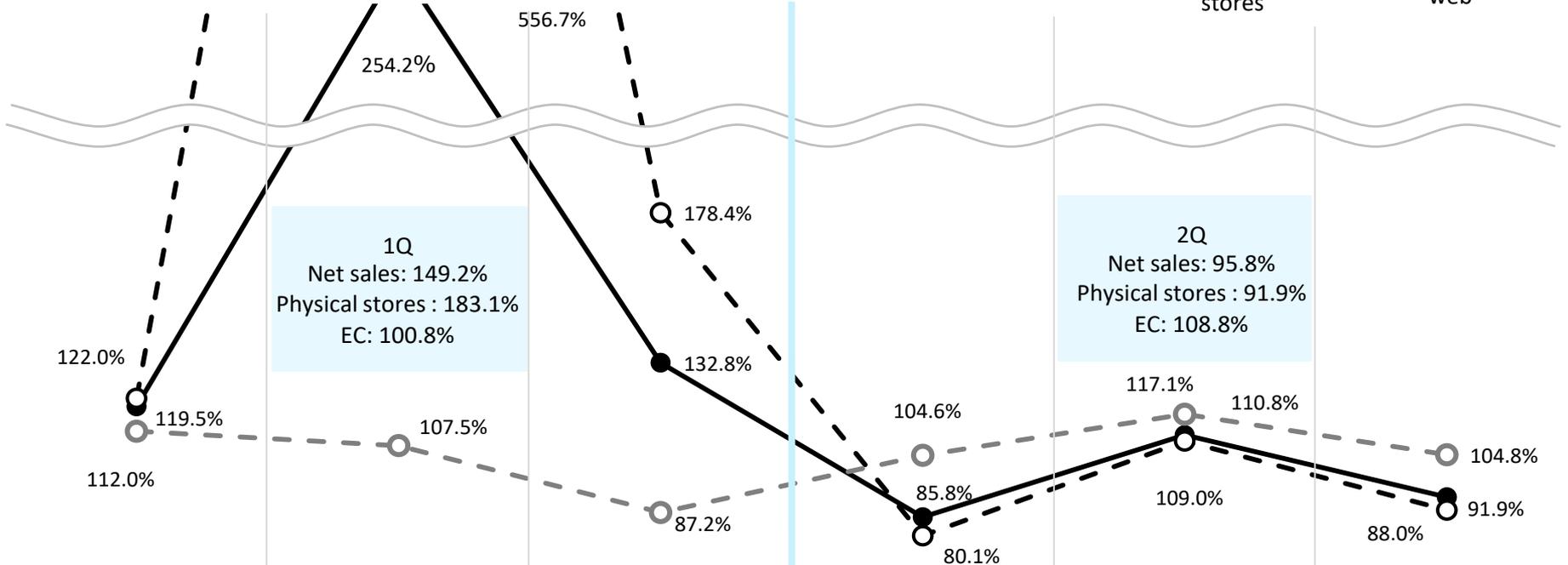
2. FY2022/02 1st Half Financial Results

Summary of FY2022/02 1H

Adastria (Non-consolidated)

Monthly net sales

● Net sales ○ Physical stores ○ E-commerce web



March	April	May	June	July	August
<ul style="list-style-type: none"> Customer traffic recovered after the end of the state of emergency Brisk sales of spring merchandise and proper level of inventories TV commercials for the Adastria .st e-commerce site 	<ul style="list-style-type: none"> Brisk sales of spring/summer merchandise due to warm weather early in April New wave of COVID-19 in mid-April and another state of emergency in late April Reduced operating hours and temporary closings of some retail facilities 	<ul style="list-style-type: none"> State of emergency extended and expanded; reduced operating hours and temporary closings continue The priority was inventory control Customer traffic recovered late in May 	<ul style="list-style-type: none"> Sales down due to cool weather and reduced operating hours and weekend closings because of the state of emergency Increased e-commerce sales activities Focused on maintaining sales per customer and gross profit margin by limiting price discounts 	<ul style="list-style-type: none"> Customer traffic recovered after the rainy season ended in the middle of July because of warm weather and a four-day holiday Conducted an e-commerce sale to sell inventories of summer apparel 	<ul style="list-style-type: none"> Low customer traffic because of the Olympics in early August, unfavorable weather in middle of the month and another wave of COVID-19 during the last week of the month The state of emergency was expanded to more areas of Japan

Consolidated Income Statement

Million JPY

	FY2021/02 1H		FY2022/02 1H		
	Results		Results		
		Ratio		Ratio	YoY
Net sales	79,664	100.0%	92,611	100.0%	116.3%
Adastria(Non-consolidated)	69,995	87.9%	79,803	86.2%	114.0%
Domestic subsidiaries *1	6,385	8.0%	8,190	8.8%	128.3%
Overseas subsidiaries *2	4,697	5.9%	6,086	6.6%	129.6%
Gross profit	42,271	53.1%	50,777	54.8%	120.1%
SG&A expenses	46,682	58.6%	50,146	54.1%	107.4%
Advertising & promotion	3,360	4.2%	4,019	4.3%	119.6%
Personnel	18,232	22.9%	18,107	19.6%	99.3%
Rent & depreciation	16,212	20.4%	17,719	19.1%	109.3%
Amortization of goodwill	79	0.1%	29	0.0%	37.2%
Others	8,798	11.0%	10,270	11.1%	116.7%
Operating profit	-4,410	-	631	0.7%	-
Adastria(non-consolidated)	-3,730	-	196	0.2%	-
Domestic subsidiaries *1	-564	-	-222	-	-
Overseas subsidiaries *2	-573	-	183	0.2%	-
Adastria Logistics	332	-	284	0.3%	85.5%
Ordinary profit	-2,730	-	1,552	1.7%	-
Net income	-2,461	-	448	0.5%	-

EBITDA	-1,129	-	3,664	4.0%	-
Depreciation and amortization	3,202	4.0%	3,003	3.2%	93.8%
Amortization of goodwill	79	0.1%	29	0.0%	37.2%

Capital expenditure	4,633		4,527		
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*1 : Domestic subsidiaries is the sum of four domestic subsidiaries: BUZZWIT Co.,Ltd., ELEMENT RULE Co., Ltd., Adastria eat Creations Co.,Ltd., ADOORLINK Co., Ltd.

*2 : Overseas subsidiaries is the sum of overseas subsidiaries: Hong Kong, China, Taiwan, Korea, USA.

Consolidated Income Statement - Summary

■ Net sales: 92.6 billion yen (+16.3%)

- Parent company: Sales increased as the impact of the pandemic was less than one year earlier. Strong EC and suburban store sales of the core GLOBAL WORK brand were a major source of sales growth. JEANASIS and other brands with a high share of EC sales also performed well.
- Domestic subsidiaries: Sales were strong at BUZZWIT, an EC company, and ELEMENT RULE sales increased as stores reopened.
- Overseas subsidiaries: Sales and earnings increased in Hong Kong, Taiwan and the U.S. Sales growth continued in China.

■ Gross profit margin: 54.8% (+1.7p YoY)

- A higher margin because discounting was limited and there were more activities to sell merchandise at list prices

■ SG&A expense ratio: 54.1% (-4.5p YoY)

- Advertising & promotions: 4.3% (+0.1p YoY) (+0.65 billion yen YoY) Promotion of the “.st”, our own EC site
- Personnel: 19.6% (-3.3p YoY) (-0.12 billion yen YoY) Decreased due to effective store operations
- Rent & depreciation: 19.1% (-1.3p YoY) (+1.5 billion yen YoY) Increase in rent due to reopening of stores
- Other: 11.1% (+0.1p YoY) (+1.4 billion yen YoY) Credit card fees, delivery, etc.

■ Operating profit: 0.63 billion yen (+5.04 billion yen YoY)

- Operating income ratio: 0.7%, EBITDA margin: 4.0%

■ Ordinary profit: 1.5 billion yen (+4.28 billion yen YoY)

- Includes as non-operating income a 450 million yen employment adjustment subsidy and a subsidy of 260 million yen for temporarily closing stores and other measures for safety during the pandemic

■ Net income: 0.44 billion yen (+2.90 billion yen YoY)

- Impairment losses of 0.17 billion yen on stores.

Adastria non-consolidated Income Statement

Million JPY

	FY2021/02 1H	FY2022/02 1H	
	Results	Results	
			YoY
Net sales	69,995	79,803	114.0%
(Same stores YoY)	71.4%	114.1%	
GLOBAL WORK	14,422	17,109	118.6%
niko and...	11,281	12,487	110.7%
studio CLIP	8,569	9,449	110.3%
LOWRYS FARM	8,608	9,137	106.1%
LEPSIM	4,930	5,679	115.2%
JEANASIS	3,912	4,616	118.0%
BAYFLOW	3,657	4,270	112.9%
RAGEBLUE	2,227	2,504	112.4%
Gross profit	36,923	43,555	118.0%
Gross margin	52.8%	54.6%	+1.8p
SG&A expenses	40,653	43,358	106.7%
SG&A ratio	58.1%	54.3%	-3.8p
Operating profit	-3,730	196	-
Operating margin	-	0.2%	-

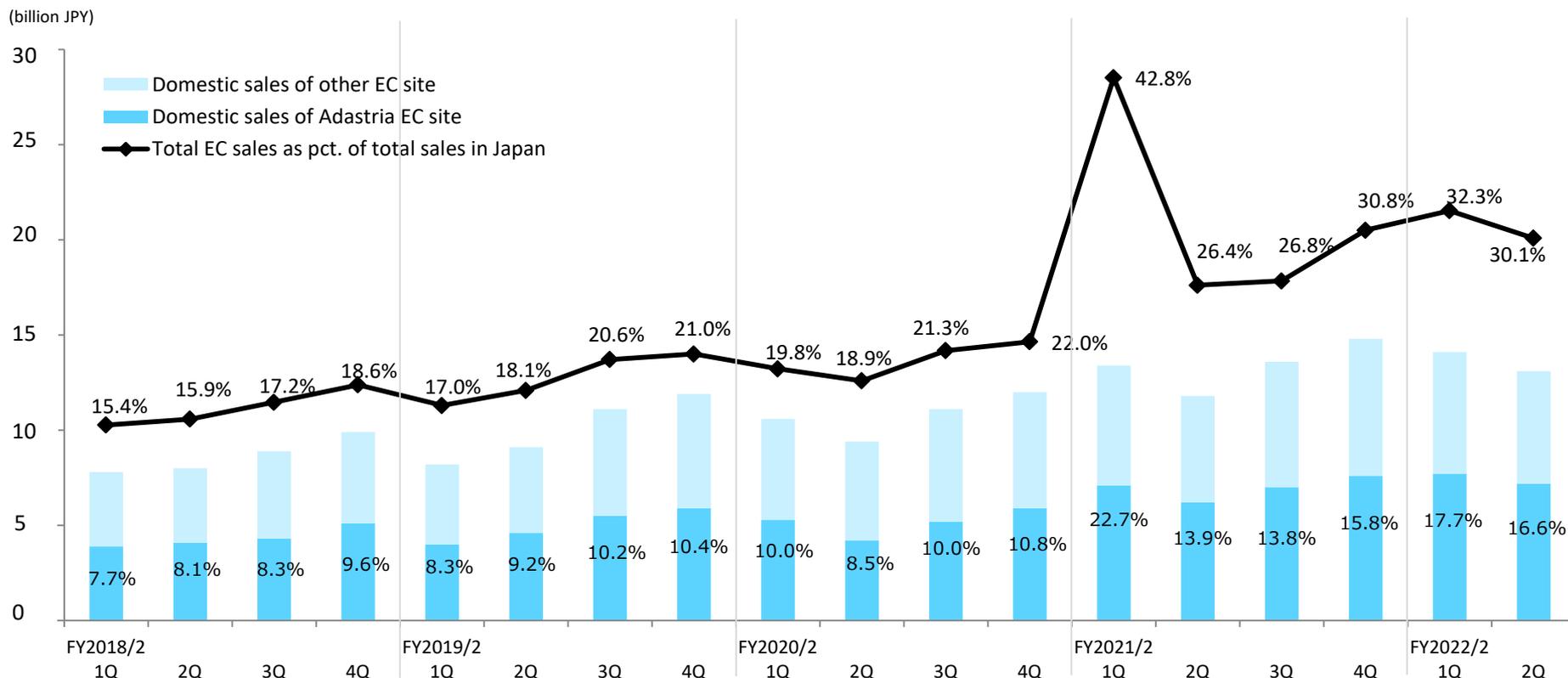
*: Amortization of goodwill for FY2021/02 1H : 57 million yen , FY2022/02 1H : 29 million yen

*:Net sales are shown before elimination of internal transactions.

Online Business

Growth in domestic online business

- FY2022/02 1H domestic e-commerce sales: **27.3** billion yen (+8.3%YoY)
- Domestic sales ratio: 31.2% (Adastria EC site: approx. 17.2%)
- Adastria's ".st" EC site has about 12.7 million members (+1.0 million from the end of FY2021/02)



*Starting in FY2018/02, non-consolidated sales and sales in ALICIA CO., LTD. was included.

*Starting in FY2019/02, non-consolidated sales and sales in ALICIA CO., LTD. and ELEMENT RULE Co., Ltd. were included. ALICIA CO., LTD. was renamed BUZZWIT Co., Ltd. in August 2018.

*Starting in FY2022/02, non-consolidated sales and sales in ADOORLINK Co., Ltd. was included.

Overseas Business

Million JPY

	FY2020/12 1H	FY2021/12 1H		
	Results	Results		
			YoY (JPY)	YoY (Local currency)
Net sales	4,697	6,086	129.6%	126.3%
Hong Kong	1,222	1,302	106.5%	107.0%
China	422	1,267	299.7%	276.6%
Taiwan	1,169	1,234	105.6%	98.7%
South Korea	351	-	-	-
USA	1,530	2,282	149.2%	150.0%
Operating profit	-573	183	-	-
Hong Kong	-64	91	-	-
China	-149	-49	-	-
Taiwan	42	106	250.1%	233.9%
South Korea	-71	-7	-	-
USA	-330	42	-	-

- Hong Kong: Sales and earnings up because of a decline in the impact of the pandemic and the closing of unprofitable stores
- China: Growth continued because of the opening of the second niko and... Shanghai store and a successful branding strategy
- Taiwan: Sales and earnings continued to increase despite a temporary negative impact of the pandemic
- USA: Returned to profitability as the economy recovered along with vaccinations and demand increased in the store and wholesale categories
- South Korea: The shutdown of all operations was completed in 2020

Consolidated Balance Sheet

Million JPY

	End of 2020/8		End of 2021/2		End of 2021/8			
		Ratio		Ratio		Ratio	Compared with the end of 2020/8	Compared with the end of 2021/2
Current assets	42,468	48.1%	51,569	54.0%	40,663	47.9%	-1,805	-10,906
Cash and deposits	14,438	16.3%	24,179	25.3%	12,062	14.2%	-2,376	-12,117
Inventories	14,981	17.0%	15,718	16.5%	17,985	21.2%	+3,004	+2,266
Fixed assets	45,852	51.9%	43,880	46.0%	44,178	52.1%	-1,673	+298
Property, plant and equipment	14,650	16.6%	14,577	15.3%	14,537	17.1%	-113	-40
Goodwill	396	0.4%	113	0.1%	83	0.1%	-313	-29
Investments and other assets	24,463	27.7%	22,010	23.1%	21,795	25.7%	-2,668	-215
Total assets	88,320	100.0%	95,449	100.0%	84,841	100.0%	-3,479	-10,608
Liabilities	34,886	39.5%	44,747	46.9%	34,373	40.5%	-513	-10,374
Interest-bearing debt	0	0.0%	0	0.0%	0	0.0%	0	0
Net assets	53,434	60.5%	50,701	53.1%	50,468	59.5%	-2,965	-233
Treasury stocks	-4,244	-4.8%	-7,917	-8.3%	-7,635	-9.0%	-3,391	+281

- Cash and deposits: Net cash is 2.3 billion yen lower than one year earlier
- Inventories: Higher than one year earlier because of remaining late summer merchandise and the procurement of fall and winter merchandise, but consistent with the level of inventories in prior years
- Liabilities: Decreased due to the payment of income tax and consumption tax that was subject to the special program for deferring tax payments due to the pandemic
- Net assets: Net asset ratio of 59.5%, -1.0p YoY

* In addition, we have already established a credit facility of 30 billion yen with our main banks.

Number of Stores and Revised plan

■ Revised store openings and closings plan for this fiscal year to reflect the current situation

	End of FY2021	FY2022/02 1H			
	Number of stores	Opened	Changed	Closed	End of 1H
GLOBAL WORK	209	1	0	-2	208
niko and ...	144	2	0	0	146
studio CLIP	183	3	0	-1	185
LOWRYS FARM	134	4	0	0	138
LEPSIM	122	0	0	0	122
JEANASIS	72	2	0	0	74
BAYFLOW	56	4	0	0	60
RAGEBLUE	49	1	0	0	50
Others	259	22	0	-2	279
Adastria non-consolidated total	1,228	39	0	-5	1,262
(Online store included)	(66)	(3)	(0)	(- 1)	(68)
Domestic subsidiaries total	104	20	0	-8	116
(Online store included)	(32)	(15)	(0)	(- 5)	(42)
Japan total	1,332	59	0	-13	1,378
(Online store included)	(98)	(18)	(0)	(- 6)	(110)

FY2022/02 Revised Plan			
Opened	Changed	Closed	End of FY2022/02
1	0	-2	208
2	0	0	146
3	0	-1	185
4	0	0	138
1	0	-2	122
2	0	-1	74
4	0	0	60
1	0	-1	49
42	0	-43	258
60	0	-50	1,238
(3)	(0)	(- 1)	(68)
28	0	-11	121
(23)	(0)	(- 6)	(49)
88	0	-61	1,359
(26)	(0)	(- 7)	(117)

Hong Kong	14	1	0	-2	13
China	3	0	0	0	3
Taiwan	41	0	0	-1	40
USA	10	0	0	-1	9
Oversea total	68	1	0	-4	65
(Online store included)	(10)	(1)	(0)	(0)	(11)

2	0	-2	14
3	0	0	6
7	0	-2	46
1	0	-1	10
13	0	-5	76
(2)	(0)	(0)	(12)

Consolidated total	1,400	60	0	-17	1,443
(Online store included)	(108)	(19)	0	(- 6)	(121)

101	0	-66	1,435
(28)	(0)	(- 7)	(129)

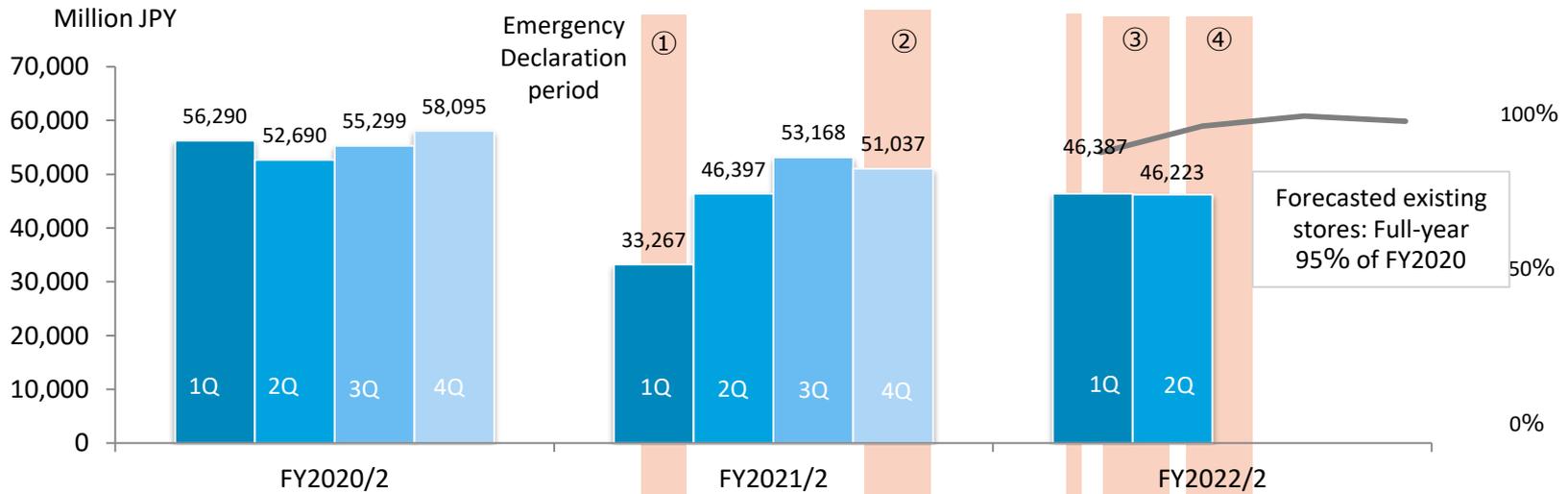
*: Domestic subsidiaries is the sum of four domestic subsidiaries: BUZZWIT Co.,Ltd., ELEMENT RULE Co., Ltd., Adastria eat Creations Co.,Ltd., ADOORLINK Co., Ltd.

*: FY2022/02 1H 7 remodeled stores in the consolidated group

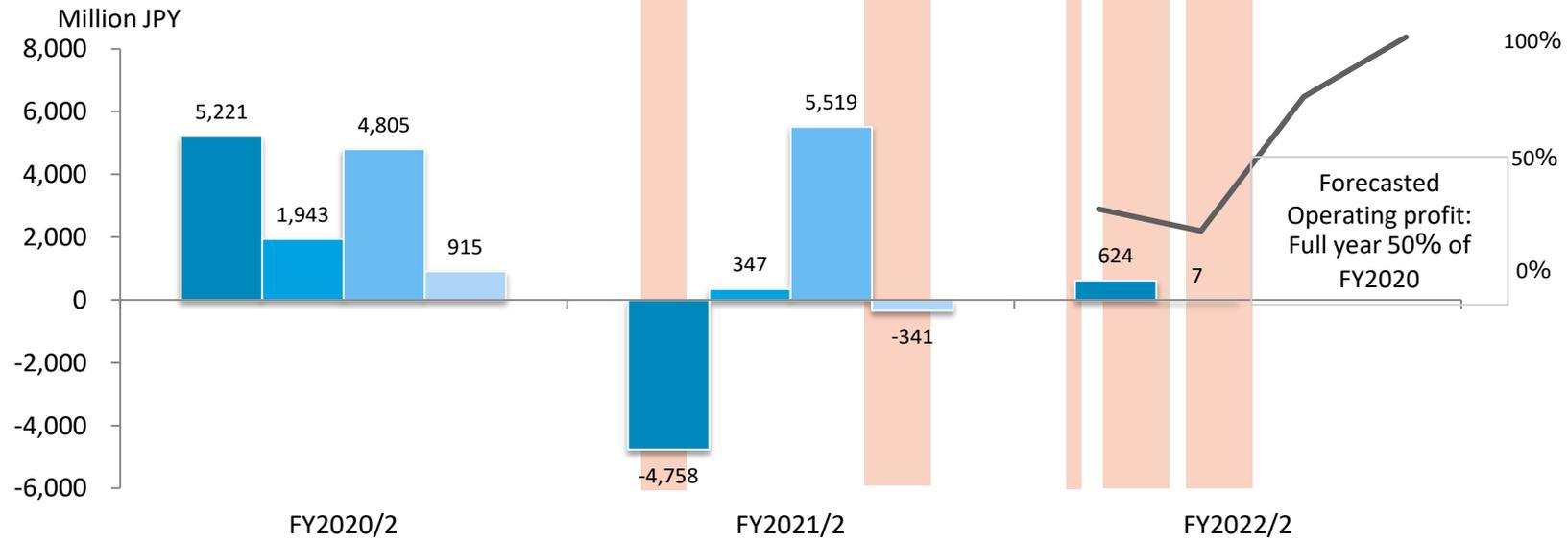
Quarterly trends and assumptions for the fiscal year earnings forecast

Even though the 1H results were lower than planned, we maintained the scenario of recovery in the 2H

Net sales



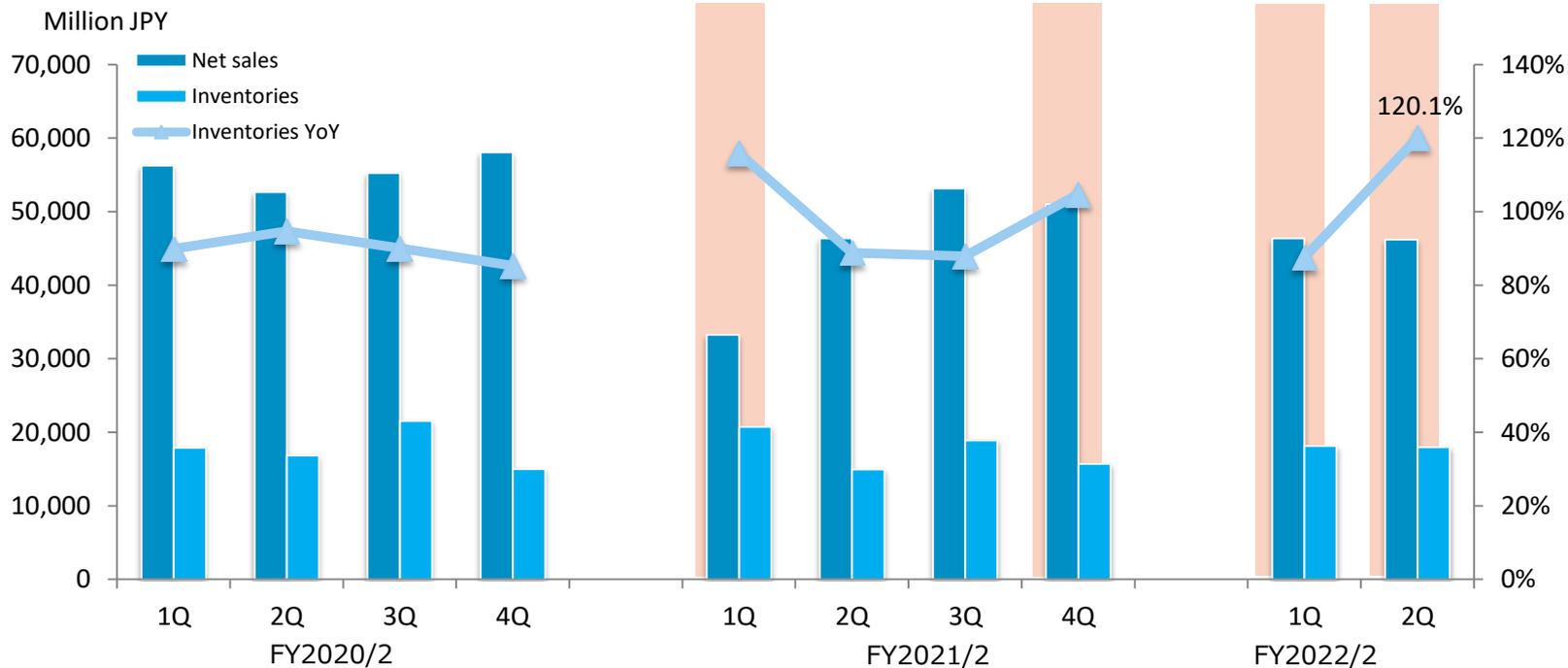
Operating profit



Impact of COVID-19

Inventory

■ Was kept at proper level despite late summer and A/W inventories were more than previous year.



Others

- Supply chain is normal
- Strategic expenses were not reduced to recover performance in the second half
- Continued to reduce fixed costs by shortened sales hours, etc.
- IT investment is on schedule, but some store openings have been postponed
- Work from home in the headquarter will continue to be encouraged, and its costs will be reduced in the medium term

FY2022/02 Consolidated Forecast (No Change)

■ No change from the initial forecast announced at April 5, 2021

Million JPY

	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		
Dividend per share (Yen)	40	50		
Interim dividend	(15)	(25)		



A D A S T R I A
— *Play fashion!*