

January 14, 2022

Adastria Co., Ltd.

Frequently asked questions about FY2022/02 third 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 third quarter of the fiscal year ending February 28, 2022 on Monday, December 27.

■Overall financial results

Q. What is the summary and company's view on the third quarter results?

A. Our third quarter runs from September to November. Even though sales and profits in September did not meet the planned level due to factors such as the state of emergency, the temperature and maintenance of our own e-commerce site, the drop in temperature from the second half of October led to an increase in sales of autumn and winter clothing, and demand for going out began to recover, resulting in profits exceeding the plan in October and November. For the first nine months of the year, profits have been lower than planned. However, given the good operating conditions in November and December, we are maintaining our full-year forecasts at this time.

■Gross profit margin

Q. What were the main reasons for the 2.5% decline in the gross profit margin in the third quarter compare to last year and will be done about it?

A. Last year we significantly curtailed our late summer purchases due to the impact of the COVID-19. As a result, the gross profit margin in the third quarter of last year was higher than normal. The difference compared to the previous year is mainly due to the fact that summer stock left over from the unseasonable weather in August was cleared in September, and to the impact of foreign exchange. At present, we expect to be able to eliminate the impact of the exchange

rate from the spring/summer season. In addition, due to the effects of the COVID-19, production plants were temporarily concentrated in mainland China, however, we plan to reduce production costs by diversifying these plants to the ASEAN region again.

■SG&A expenses

Q. What is the situation of SG&A expenses?

A. With the lifting of the state of emergency declaration, store opening hours were normalized, resulting in an increase in personnel costs, including overtime. On the other hand, Rent & depreciation costs were decreased, due to improved rent conditions, despite the rent exemption no longer being applicable.

We continued to control non-essential costs, while promoting our EC (.st) for future growth and expanding store openings in mainland China as planned.

■EC site

Q. What are the benefits of strengthening with your own EC site?

A. We share the same membership system between our physical and web stores, which enable us to grow sales and profits by improving customer convenience and providing better shopping experience. We also open new OMO-type stores (.st store), which merge online with offline, and provide omni-channel services. By expanding these digital businesses, we are using the accumulated data for our product development and inventory management.

■Overseas business

Q. How were your overseas businesses in the third quarter?

A. The consolidated period of overseas business is from July to September. Hong Kong and the USA maintained revenue and profit growth. Even though Taiwan sales and profits declined until August due to COVID-19, have recovered since September. In mainland China, where we are in the investment phase, the growth continued because of the opening of the second niko and ... Shanghai store and a successful branding strategy. However, costs increased by preparing for new stores opening. As a result, in the first nine months of the year, the overseas business as a whole

remained profitable.

■ **Our capital and business alliance agreement with Zetton**

Q. Why have you formed the capital alliance and what synergies are you forecasting?

A. We have developed its food and beverage business to make our physical stores more attractive and comprehensive. This will grow quicker under this alliance where we expect the following synergies;

- (1) We are able to create a new lifestyle proposition, using our joint know-how, human resources, and networks.
- (2) Cross promotions based on globalization, digitalization and sustainability.
- (3) Leveraging of products and brand value within Japan.
- (4) Leveraging of products and brand value internationally.
- (5) Cross selling using each others overseas network.

Our plans for the food and beverage business will be announced with our full-year results.