

Summary of Consolidated Financial Results for the Fiscal Year Ended February 28, 2023

[Japanese GAAP]

April 4, 2023

Company name: Adastria Co., Ltd.

Listing: Tokyo Stock Exchange

Stock code: 2685

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Scheduled date of payment of dividend: May 10, 2023

Scheduled date of filing of Annual Securities Report: May 26, 2023

Preparation of supplementary materials for financial results: Yes

Holding of financial results meeting: Yes (for investors)

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(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended February 28, 2023

(March 1, 2022 – February 28, 2023)

(1) Consolidated results of operations (Percentages shown for net sales and incomes represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Net income attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Feb. 28, 2023	242,552	20.3	11,515	75.4	12,026	47.3	7,540	53.3
Fiscal year ended Feb. 28, 2022	201,582	9.6	6,564	756.1	8,166	173.9	4,917	-

Note: Comprehensive income Fiscal year ended Feb. 28, 2023: 8,019 million yen (up 51.9%)
Fiscal year ended Feb. 28, 2022: 5,280 million yen (-%)

	Net income per share	Diluted net income per share	ROE	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended Feb. 28, 2023	166.37	-	13.3	11.5	4.7
Fiscal year ended Feb. 28, 2022	108.72	-	9.4	8.4	3.3

Reference: Equity in earnings of affiliates Fiscal year ended Feb. 28, 2023: (0) million yen
Fiscal year ended Feb. 28, 2022: - million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Feb. 28, 2023	111,392	60,762	53.3	1,309.96
As of Feb. 28, 2022	97,957	54,963	55.1	1,192.62

Reference: Shareholders' equity As of Feb. 28, 2023: 59,407 million yen As of Feb. 28, 2022: 53,963 million yen

Note: At the end of the previous fiscal year, the provisional accounting treatment for the business combination was finalized, and, for the fiscal year ended February 2022, the initial allocation of acquisition costs due to the provisional finalization of accounting treatment was significantly revised. The reported amounts reflect these changes.

(3) Consolidated cash flow position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of the period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended Feb. 28, 2023	13,460	(9,963)	(4,398)	16,343
Fiscal year ended Feb. 28, 2022	3,504	(7,780)	(3,251)	16,863

2. Dividends

	Dividend per share					Total dividends	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended Feb. 28, 2022	-	25.00	-	30.00	55.00	2,510	50.6	4.8
Fiscal year ended Feb. 28, 2023	-	25.00	-	35.00	60.00	2,739	36.1	4.8
Fiscal year ending Feb. 29, 2024 (forecast)	-	30.00	-	35.00	65.00		31.4	

3. Consolidated Forecast for the Fiscal Year Ending February 29, 2024 (March 1, 2023 – February 29, 2024)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Net income attributable to owners of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	260,000	7.2	14,000	21.6	14,000	16.4	9,400	24.7	207.27

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

Newly added: 1 (Adastria (Thailand) Co., Ltd.)

Excluded: -

(2) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: Yes

3) Changes in accounting-based estimates: None

4) Restatements: None

Note: Please refer to the section “3. Consolidated Financial Statements and Notes, (5) Notes to Consolidated Financial Statements, Changes in Accounting Policies” on page 16 for further information.

(3) Number of outstanding shares (common stock)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Feb. 28, 2023: 48,800,000 shares As of Feb. 28, 2022: 48,800,000 shares

2) Number of treasury shares at the end of the period

As of Feb. 28, 2023: 3,449,391 shares As of Feb. 28, 2022: 3,552,459 shares

3) Average number of shares outstanding during the period

Fiscal year ended Feb. 28, 2023: 45,322,871 shares Fiscal year ended Feb. 28, 2022: 45,229,961 shares

Reference: Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended February 28, 2023

(March 1, 2022 – February 28, 2023)

(1) Non-consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Feb. 28, 2023	196,727	13.0	10,384	87.7	10,238	53.6	6,626	49.1
Fiscal year ended Feb. 28, 2022	174,065	8.2	5,533	263.6	6,667	140.2	4,443	-

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended Feb. 28, 2023	146.20	-
Fiscal year ended Feb. 28, 2022	98.25	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Feb. 28, 2023	86,314	51,251	59.4	1,130.13
As of Feb. 28, 2022	78,983	46,973	59.5	1,038.14

Reference: Shareholders' equity As of Feb. 28, 2023: 51,251 million yen As of Feb. 28, 2022: 46,973 million yen

Note 1: The current financial report is not subject to audit by certified public accountants or auditing firms.

Note 2: Cautionary statement with respect to forward-looking statements

Forward-looking statements in this report are based on currently available information and certain assumptions judged to be reasonable. These statements are not promises by Adastria regarding future performance. Actual results may differ significantly from these forecasts for a number of factors. Please refer to the section “1. Overview of Results of Operations (4) Outlook” on page 7 regarding preconditions or other related matters for the forecast shown above.

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1. Overview of Results of Operations

(1) Results of Operations

Consolidated results

(Million yen)

	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)	FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)	YoY change (Amount)	YoY change (%)
Net sales	201,582	242,552	40,969	20.3
Operating profit	6,564	11,515	4,950	75.4
Ordinary profit	8,166	12,026	3,860	47.3
Net income attributable to owners of the parent	4,917	7,540	2,622	53.3

Japan slowly returned to normal consumer activity during the fiscal year that ended in February 2023 as the number of people going out increased as restrictions on various activities ended. However, there was a brief upturn of infections caused by the Omicron variant. Overall, the business climate was better than in the previous fiscal year and sales were higher than one year earlier in every month of the fiscal year for all stores and on an existing store basis. The outlook for the economy remains uncertain because of the yen's rapid depreciation, the rising cost of resources and energy and worldwide inflation because of the Ukraine crisis. However, the desire of consumers to buy apparel and other fashion products remains strong.

The Adastria Group announced a medium-term management plan on April 13, 2022 with the following strategies for growth and is taking numerous actions to accomplish these goals.

Growth Strategy I Multi-Brand, Multi-Category	Grouping of brands according to roles for improved profitability and growth
Growth Strategy II Digital Customer Interactions and Services	Accelerate growth of our EC site and create a fun EC community
Growth Strategy III Glocal	Develop models in Mainland China and cultivate Southeast Asia
Growth Strategy IV New Business	Establish a food and beverage business and create new appeal

Consolidated net sales increased 20.3% year-on-year to 242,552 million yen, operating profit increased 75.4% to 11,515 million yen, ordinary profit increased 47.3% to 12,026 million yen, and net income attributable to owners of the parent increased 53.3% to 7,540 million yen.

As a result of Zetton, Inc. becoming a consolidated subsidiary in February 2022, Adastria is reporting the Apparel and Sundry Goods-related Business and Other (Food and Beverage Business) as separate business segments beginning with the fiscal year that ended in February 2023.

In the Apparel and Sundry Goods-related business segment, sales in Japan were up 14.5% from one year earlier. Performance benefited from external factors such as the easing of restrictions on store operating hours and favorable weather for sales of spring and summer merchandise. Successful activities involving merchandise, including several hit products that meet the rising demand for clothing for outings, TV commercials, the use of loyalty points and other actions also contributed to segment sales and earnings.

In the Other segment, sales increased due to the acquisition of Zetton, Inc., which operates a food and beverage business in line with Adastria's growth strategy.

As part of our digital strategy, TV commercials and other initiatives were launched to attract customers and increase awareness of Adastria's "Dot ST" e-commerce website. Activities include adding merchandise of other companies to enlarge the lineup of products. As a result, the number of members of this website is now 15.5 million, 1.9 million more than at the end of the previous fiscal year. Although pace of sales growth was held down because of the recovery at physical stores, e-commerce sales continue to increase with these sales up 8.9% from one year earlier. E-commerce sales increased in part because subsidiary BUZZWIT Co., Ltd., which operates an e-commerce business, acquired OPEN AND NATURAL Inc., a children's clothing e-commerce company that is

now a consolidated subsidiary.

In the United States, sales rose 53.5% because of strong consumer spending, growth of wholesale sales because of quality improvements, and higher e-commerce sales. In Taiwan, sales increased 45.6% because of the much lower impact of the pandemic and the success of new brands. In Hong Kong, sales were up 19.6% despite the negative impact of the pandemic in the first quarter. Sales started recovering in the second quarter and new stores and the Hong Kong government's consumption voucher scheme contributed to sales growth. In Mainland China, although stores were opened in accordance with Adastria's glocal growth strategy, the increasing severity of the pandemic held sales growth to only 6.3%. As a result, total overseas sales were up 35.6% and operating profit were up 36.1%. All overseas sales information is based on conversions to yen of sales in local currencies.

The weaker yen and higher cost of raw materials had a negative effect on earnings. Several factors contributed to earnings during the fiscal year, including measures to control inventories and limit sales of merchandise at discounts by supplying at the right times, prices and volumes, supply fashions with even more added value, and revise prices of some items to maintain the proper balance between prices the value of merchandise. The addition of Zetton as a new consolidated subsidiary raised the percentage of sales of food and beverages, which have a relatively high gross profit margin, and helped raise the consolidated gross profit margin. Logistics and "Dot ST" e-commerce website operations were suspended temporarily due to the unauthorized access to the Adastria server in January 2023. This incident reduced opportunities to sell winter apparel and other products. As a result, the fourth quarter gross profit margin of apparel and other merchandise sold in Japan was lower than in the same quarter of the previous fiscal year. As a result, the gross profit margin decreased 0.4 percentage point from one year earlier to 54.7%.

Selling, general, and administrative expenses, personnel expenses, and store leasing expenses, which had been held down due to store closures and shortened business hours in the previous fiscal year, increased. Despite this increase, the SG&A to sales ratio decreased 1.9 percentage point to 49.9% and the operating margin improved because of the sales recovery, efficient operation of businesses, and lower advertising expenses caused by the application of the new revenue recognition standard.

Non-operating income includes a subsidy of 231 million yen related to shortened operating hours caused by the pandemic, employment adjustment subsidies of 37 million yen and foreign exchange gains of 291 million yen. A loss on valuation of derivatives of 106 million yen related to shutting down the South Korean business was recorded as a non-operating expense.

There was an extraordinary loss of 592 million yen for the impairment of store assets.

Business segment performance was as follows.

1) Apparel and Sundry Goods-related Business

As a result of the above, sales were 232,927 million yen and segment profit was 12,289 million yen.

Seven stores were added to this business because OPEN AND NATURAL Inc. became a consolidated subsidiary in the first quarter. In addition, we opened 96 stores (including 25 overseas) and closed 91 stores (including 3 overseas), resulting in a total of 1,435 stores (including 95 overseas) at the end of the current fiscal year.

2) Other (Food and Beverage Business)

Sales were 9,665 million yen and segment loss was 263 million yen.

The number of stores at the end of the current fiscal year was 75, a result of the increase of 73 stores due to the acquisition of Zetton, Inc. at the end of the previous fiscal year and opening of 4 stores and closing of 7 stores.

Supplementary Information

(1) Sales for Brands and Regions

Brand / region		FY2/23		YoY change (%)
		Sales (million yen)	Composition (%)	
	GLOBAL WORK	45,597	18.8	20.7
	niko and ...	29,825	12.3	9.5
	LOWRYS FARM	21,369	8.8	4.9
	studio CLIP	20,325	8.4	7.1
	LEPSIM	12,414	5.1	5.3
	JEANASiS	11,209	4.6	6.5
	BAYFLOW	10,180	4.2	11.6
	LAKOLE	7,934	3.3	63.8
	Others	34,813	14.3	13.1
	Total (Adastria)	193,671	79.8	13.0
	BUZZWIT Co., Ltd. (Note 3)	10,369	4.3	50.6
	ELEMENT RULE Co., Ltd.	11,068	4.6	12.6
	Other consolidated subsidiaries	280	0.1	282.6
	Total (Japan)	215,390	88.8	14.5
	Hong Kong	3,372	1.4	19.6
	Mainland China	2,505	1.0	6.3
	Taiwan	4,435	1.8	45.6
	USA	7,222	3.0	53.5
	Total (Overseas)	17,535	7.2	35.6
	Total (Apparel and Sundry Goods-related Business)	232,925	96.0	15.8
	Zetton, Inc. (Note 4)	9,036	3.7	-
	ADASTRIA eat Creations Co., Ltd.	590	0.3	23.5
	Total (Food and Beverage Business)	9,626	4.0	1,913.4
	Total (Group)	242,552	100.0	20.3

- Notes:
1. The number of stores is categorized by using brand operating divisions and geographic regions.
 2. The above figures are sales to external customers and do not include internal sales between consolidated subsidiaries.
 3. Sales of BUZZWIT Co., Ltd. include sales of its consolidated subsidiary OPEN AND NATURAL, Inc.
 4. Sales of Zetton, Inc. include sales of its consolidated subsidiary ZETTON, INC (USA Business).

(2) Sales for Merchandise Categories

Category	FY2/23		YoY change (%)
	Sales (million yen)	Composition (%)	
Men's apparel (bottoms, tops)	37,899	15.6	22.9
Lady's apparel (bottoms, tops)	148,319	61.2	15.4
Others	56,332	23.2	33.6
Total	242,552	100.0	20.3

- Notes:
1. The others category includes additions to the provision for point card certificates and other items.
 2. The above figures are sales to external customers and do not include internal sales between consolidated subsidiaries.

(3) Number of Stores

Brand / region		Number of stores						As of Feb. 28, 2023
		As of Feb. 28, 2022	FY2/23				Increase /decrease	
			Increase (Note 3)	Opened	Changed	Closed		
	GLOBAL WORK	206	-	4	-	(5)	(1)	205
	niko and ...	144	-	4	-	(7)	(3)	141
	LOWRYS FARM	136	-	2	-	(9)	(7)	129
	studio CLIP	184	-	2	-	(12)	(10)	174
	LEPSIM	120	-	1	-	(7)	(6)	114
	JEANASiS	73	-	3	-	(5)	(2)	71
	BAYFLOW	60	-	2	-	(1)	1	61
	LAKOLE	47	-	18	-	(2)	16	63
	Others	275	-	16	-	(27)	(11)	264
	Total (Adastia)	1,245	-	52	-	(75)	(23)	1,222
	BUZZWIT Co., Ltd. (Note 4)	18	7	6	-	(2)	11	29
	ELEMENT RULE Co., Ltd.	84	-	8	-	(11)	(3)	81
	Other consolidated subsidiaries	3	-	5	-	-	5	8
	Total (Japan)	1,350	7	71	-	(88)	(10)	1,340
	Hong Kong	14	-	7	-	-	7	21
	Mainland China	6	-	7	-	-	7	13
	Taiwan	43	-	11	-	(2)	9	52
	USA	10	-	-	-	(1)	(1)	9
	Total (Overseas)	73	-	25	-	(3)	22	95
	Total (Apparel and Sundry Goods-related Business)	1,423	7	96	-	(91)	12	1,435
	Zetton, Inc. (Note 5)	-	73	4	-	(5)	72	72
	ADASTRIA eat Creations Co., Ltd.	5	-	-	-	(2)	(2)	3
	Total (Food and Beverage Business)	5	73	4	-	(7)	70	75
	Total (Group)	1,428	80	100	-	(98)	82	1,510

- Notes:
1. The number of stores is categorized by using brand operating divisions and geographic regions.
 2. The number of stores includes e-commerce websites of other companies and e-commerce websites of Adastia.
 3. "Increase" represents the increase in the number of stores resulting from the consolidation of Zetton, Inc. at the end of FY2/22 and OPEN AND NATURAL Inc. during the first quarter of FY2/23.
 4. The number of stores of BUZZWIT Co., Ltd. includes sales of its consolidated subsidiary OPEN AND NATURAL Inc.
 5. The number of stores of Zetton, Inc. includes sales of its consolidated subsidiary ZETTON, INC (USA Business).

(2) Financial Position

Assets

Current assets increased 7,602 million yen from as of February 28, 2022 to 55,772 million yen as of February 28, 2023. This was mainly due to increases of 2,293 million yen in notes and accounts receivable-trade and 5,420 million yen in inventories.

Non-current assets increased 5,831 million yen to 55,619 million yen. This was mainly due to increases of 1,596 million yen in store interior equipment, net, 3,121 million yen in right-of-use assets, net (right-of-use assets, etc., resulting from the application of the new lease accounting standard (ASC No. 842), etc., by the U.S. subsidiary) and 1,156 million yen in other, net under property, plant and equipment.

Liabilities

Current liabilities increased 5,573 million yen to 43,989 million yen. This was mainly due to increases of 1,997 million yen in notes and accounts payable-trade, 889 million yen in lease obligations, 1,664 million yen in accounts payable-other and 2,535 million yen in contract liabilities arising from the adoption of the revenue recognition accounting standard, while there was a decrease of 1,568 million yen in provision for point card certificates.

Non-current liabilities increased 2,061 million yen to 6,639 million yen. This was mainly due to an increase of 2,600 million yen in lease obligations (lease liabilities, etc., resulting from the application of the new lease accounting standard (ASC No. 842) by the U.S. subsidiary).

Net assets

Net assets increased 5,799 million yen to 60,762 million yen. This was mainly due to a decrease of 349 million yen in treasury shares (increase in net assets), and increases of 4,854 million yen in retained earnings and 319 million yen in foreign currency translation adjustment.

(3) Cash Flows

Cash and cash equivalents (hereinafter “net cash”) as of February 28, 2023 amounted to 16,343 million yen, or 519 million yen less than as of February 28, 2022.

A summary of cash flows from each activity during the current fiscal year is as follows:

Cash flows from operating activities

Net cash provided by operating activities totaled 13,460 million yen (an increase of 9,956 million yen, compared with the previous fiscal year). The main positive factors include net income before income taxes of 11,433 million yen, depreciation of 8,796 million yen and an increase in trade payables of 2,130 million yen. Main negative factors include an increase in inventories of 4,939 million yen and income taxes paid of 4,367 million yen.

Cash flows from investing activities

Net cash used in investing activities totaled 9,963 million yen (an increase of 2,182 million yen). The main positive factors include proceeds from refund of leasehold and guarantee deposits of 2,555 million yen. Main negative factors include the payments of 6,988 million yen for the purchase of property, plant and equipment, 3,520 million yen for the purchase of intangible assets, 1,000 million yen for the payments of leasehold and guarantee deposits and 839 million yen for the purchase of shares of subsidiaries resulting in change in scope of consolidation.

Cash flows from financing activities

Net cash used in financing activities totaled 4,398 million yen (an increase of 1,146 million yen). This was mainly due to repayments of long-term borrowings of 692 million yen, cash dividends paid of 2,510 million yen and repayments of lease obligations of 1,188 million yen.

Reference: Cash flow indicators

	FY2/21	FY2/22	FY2/23
Shareholders' equity ratio (%)	53.1	55.1	53.3
Shareholders' equity ratio based on market prices (%)	94.4	78.4	88.2
Interest-bearing debt to cash flow ratio	0.3	1.4	0.6
Interest coverage ratio (times)	74.6	23.6	69.4

Notes: 1. Shareholders' equity ratio: Shareholders' equity / Total assets

2. Shareholders' equity ratio based on market prices: Market capitalization / Total assets

3. Interest-bearing debt to cash flow ratio: Interest-bearing debt / Operating cash flows

4. Interest coverage ratio: Operating cash flows / Interest payments

* Market capitalization is calculated by multiplying the closing share price at the end of the period by the number of shares outstanding at the end of the period, excluding treasury shares.

* Operating cash flows are calculated using the figures for operating cash flows in the consolidated statement of cash flows. Interest-bearing debt includes all liabilities on the consolidated balance sheet that incur interest. Interest payments are calculated using the figures for interest expenses paid in the consolidated statement of cash flows.

(4) Outlook

The Japanese economy is slowly returning to normal as social and economic activities resume along with pandemic safety measures. There are many sources of concern about the business climate such as the rising cost of raw materials and energy, upturns in inflation and interest rates, foreign exchange rate movements, and geopolitical risk. Although consumer spending is recovering somewhat as economic activity returns to normal, a Japanese government household budget survey showed that consumer spending on clothing during calendar 2022 was only slightly above 80% of the level before the pandemic. This indicates that there is still potential for the recovery of apparel spending to continue. However, the outlook for market conditions must be based on the premise that the behavior of consumers will not go back to the situation prior to the pandemic. The main reasons are the change in life styles caused by the pandemic, such as the widespread use of telework, and the irreversible changes in consumers' preferences. At the same time, there are numerous positive trends for the Adastria Group. One example is increasing demand for one-mile wear and household products as people spend more time at home. Other beneficial shifts in consumer preferences are the increasing popularity of outdoor activities, the increasing use of casual apparel for business activities, and the growth of the e-commerce market. We are taking many actions to target these new categories of demand.

From a medium to long-term perspective, the apparel market in Japan is certain to structurally shrink slowly as the population ages, the number of children falls and disposable income decreases. In other countries, the growth of apparel markets is likely to continue as populations increase and personal income in emerging countries climbs.

To achieve growth and higher earnings in this business climate, we are currently implementing a medium-term management plan that will end with the fiscal year ending in February 2026.

- (1) In the apparel business in Japan, we will divide our multi-brand portfolio, which has a large number of innovative brands, into three categories: independent brands, growth brands, and profit brands. Our objective is growth of the scale of operations and of our earnings by making strategic investments and implementing business strategies that match the current stage of each category of brands.
- (2) For our digital strategy, as the e-commerce market continues to expand, we will make investments to raise the awareness of our e-commerce operations and the capabilities of these operations. In addition, we will add more merchandise categories to our e-commerce operations and strengthen relationships between our store personnel and customers. Our objectives to increase the number of active customers and the number of purchases these customers make.
- (3) Our overseas strategy is centered on a "glocal" approach that reflects the characteristics of each region where we have operations. We plan to continue growing in China while starting operations in Southeast Asia and other areas where we are not yet active. Expanding e-commerce outside Japan is another goal.
- (4) For new businesses, we plan to enlarge our lineup of businesses and sources of earnings, such as by adding a

restaurant business, in order to reflect the diversification of our customers' life styles and changes in consumption patterns. Launching and expanding B-to-B businesses is another goal for new businesses. The B-to-B sector will allow us to target new opportunities in the fashion industry and build new business models that span different business formats.

By taking actions based on these strategies, we are determined to reach the following targets for the fiscal year ending in February 2026: sales of 280 billion yen, operating margin of 8% and an ROE of at least 15%.

(5) Basic Policy on Profit Distribution, and Dividend Plans for the Current and Next Fiscal Years

Our goal is to maximize the overall satisfaction of our customers, shareholders, business partners and employees as we achieve the long-term growth of corporate value (shareholder value) and strengthen the foundation for our businesses by making investments needed to create highly appealing brands, increase the use of digital technologies and achieve business growth on a global scale. For the distribution of earnings to shareholders, we use a consolidated payout ratio of 30%* as the basic policy.

In addition, we plan to return to shareholders in a timely manner surplus funds accumulated over many years after making investments for growth and these profit distributions. Repurchases will be determined in an appropriate and timely manner while taking into account changes in our stock price, our financial position and other factors.

The forecast for the year-end dividend for the fiscal year that ended in February 2023 was determined by taking into account the stability of dividends and the need for proper balance between investments and shareholder distributions. On December 29, 2022, we increased our net income forecast for the fiscal year that ended in February 2023 and raised the year-end dividend forecast from 30 yen to 35 yen. As a result, the fiscal year dividend forecast is 60 yen, 5 yen higher than the dividend for the previous fiscal year.

For the fiscal year ending in February 2024, we plan to pay an annual dividend of 65 yen per share. The dividend of 65 yen is designated as the minimum dividend in the medium-term plan for the final year of this plan, which is the fiscal year ending in February 2026. Our goal is to pay an even higher dividend by using the medium-term plan's initiatives for the growth of sales and earnings.

*Net income before goodwill amortization was used as the standard for earnings goals in prior years. As goodwill amortization has become insignificant due to purchase price allocation and other reasons, net income is used as the standard beginning in the fiscal year ending in February 2024.

2. Basic Approach for the Selection of Accounting Standards

Adastria prepares its consolidated financial statements based on the generally accepted accounting principles in Japan to permit comparisons with prior years and with the financial data of other companies.

We will take suitable actions with regard to the application of International Financial Reporting Standards (IFRS) by taking into account associated factors in Japan and other countries.

3. Consolidated Financial Statements and Notes**(1) Consolidated Balance Sheet**

(Million yen)

	FY2/22 (As of Feb. 28, 2022)	FY2/23 (As of Feb. 28, 2023)
Assets		
Current assets		
Cash and deposits	16,976	16,380
Notes and accounts receivable-trade	9,878	12,171
Inventories	19,259	24,679
Other	2,126	2,622
Allowance for doubtful accounts	(71)	(81)
Total current assets	48,169	55,772
Non-current assets		
Property, plant and equipment		
Buildings and structures	8,374	8,986
Accumulated depreciation	(3,868)	(4,185)
Buildings and structures, net	4,506	4,801
Store interior equipment	35,223	37,705
Accumulated depreciation	(30,818)	(31,705)
Store interior equipment, net	4,404	6,000
Land	2,366	2,366
Right-of-use assets	5,712	10,949
Accumulated depreciation	(2,468)	(4,584)
Right-of-use assets, net	3,243	6,364
Construction in progress	402	292
Other	3,579	5,109
Accumulated depreciation	(2,497)	(2,870)
Other, net	1,082	2,239
Total property, plant and equipment	16,005	22,065
Intangible assets		
Software	6,417	6,870
Goodwill	922	1,331
Other	3,497	3,706
Total intangible assets	10,836	11,908
Investments and other assets		
Investment securities	1,003	1,108
Leasehold and guarantee deposits	15,426	13,545
Deferred tax assets	6,660	7,124
Other	205	165
Allowance for doubtful accounts	(351)	(298)
Total investments and other assets	22,945	21,645
Total non-current assets	49,787	55,619
Total assets	97,957	111,392

(Million yen)

	FY2/22 (As of Feb. 28, 2022)	FY2/23 (As of Feb. 28, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	11,282	13,280
Electronically recorded obligations-operating	6,620	6,990
Short-term borrowings	95	197
Current portion of long-term borrowings	455	375
Lease obligations	805	1,695
Accounts payable-other	10,449	12,114
Income taxes payable	3,247	2,970
Contract liabilities	-	2,535
Provision for bonuses	2,179	2,112
Provision for point card certificates	1,728	160
Other provisions	446	779
Other	1,104	777
Total current liabilities	38,416	43,989
Non-current liabilities		
Long-term borrowings	896	554
Lease obligations	2,758	5,359
Provisions	322	-
Other	600	725
Total non-current liabilities	4,577	6,639
Total liabilities	42,994	50,629
Net assets		
Shareholders' equity		
Share capital	2,660	2,660
Capital surplus	7,213	7,213
Retained earnings	51,114	55,968
Treasury shares	(7,636)	(7,286)
Total shareholders' equity	53,351	58,555
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8	95
Deferred gains or losses on hedges	45	(120)
Foreign currency translation adjustment	558	877
Total accumulated other comprehensive income	611	852
Non-controlling interests	1,000	1,355
Total net assets	54,963	60,762
Total liabilities and net assets	97,957	111,392

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

(Million yen)

	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)	FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)
Net sales	201,582	242,552
Cost of sales	90,569	109,887
Gross profit	111,012	132,664
Selling, general and administrative expenses		
Advertising expenses	8,153	8,037
Provision of allowance for doubtful accounts	41	(42)
Remuneration for directors (and other officers)	497	682
Salaries and bonuses	29,605	34,609
Provision for bonuses	2,129	2,113
Welfare expenses	4,993	5,671
Rents	30,571	34,967
Lease payments	580	656
Depreciation	6,679	8,185
Amortization of goodwill	58	263
Other	21,136	26,003
Total selling, general and administrative expenses	104,448	121,149
Operating profit	6,564	11,515
Non-operating income		
Interest income	11	16
Dividend income	3	2
Foreign exchange gains	310	291
Income from contribution to facilities	71	43
Subsidy income	676	231
Revenue from electric power sales	34	29
Subsidies for employment adjustment	549	37
Other	221	231
Total non-operating income	1,880	883
Non-operating expenses		
Interest expenses	148	193
Loss on valuation of derivatives	59	106
Commitment fee	45	44
Other	26	27
Total non-operating expenses	278	372
Ordinary profit	8,166	12,026
Extraordinary income		
Gain on liquidation of subsidiaries and associates	81	-
Reversal of allowance for doubtful accounts	264	-
Total extraordinary income	346	-
Extraordinary losses		
Impairment loss	600	492
Loss on valuation of investment securities	-	100
Total extraordinary losses	600	592
Net income before income taxes	7,911	11,433
Income taxes-current	3,124	4,028
Income taxes-deferred	(129)	(373)
Total income taxes	2,994	3,654
Net income	4,917	7,778
Net income (loss) attributable to non-controlling interests	(0)	238
Net income attributable to owners of the parent	4,917	7,540

Consolidated Statement of Comprehensive Income

(Million yen)

	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)	FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)
Net income	4,917	7,778
Other comprehensive income		
Valuation difference on available-for-sale securities	8	87
Deferred gains or losses on hedges	10	(165)
Foreign currency translation adjustment	343	319
Total other comprehensive income	363	240
Comprehensive income	5,280	8,019
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	5,280	7,663
Comprehensive income attributable to non-controlling interests	(0)	355

(3) Consolidated Statement of Changes in Equity

FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,660	7,213	48,479	(7,917)	50,435
Changes during period					
Dividends of surplus			(2,282)		(2,282)
Net income attributable to owners of the parent			4,917		4,917
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares by stock ownership plan trust				282	282
Net changes in items other than shareholders' equity					-
Total changes during period	-	-	2,634	281	2,915
Balance at end of period	2,660	7,213	51,114	(7,636)	53,351

(Million yen)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	0	34	231	266	-	50,701
Changes during period						
Dividends of surplus				-		(2,282)
Net income attributable to owners of the parent				-		4,917
Purchase of treasury shares				-		(1)
Disposal of treasury shares by stock ownership plan trust				-		282
Net changes in items other than shareholders' equity	8	10	326	345	1,000	1,345
Total changes during period	8	10	326	345	1,000	4,261
Balance at end of period	8	45	558	611	1,000	54,963

FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,660	7,213	51,114	(7,636)	53,351
Cumulative effects of changes in accounting policies			(175)		(175)
Restated balance	2,660	7,213	50,939	(7,636)	53,176
Changes during period					
Dividends of surplus			(2,510)		(2,510)
Net income attributable to owners of the parent			7,540		7,540
Purchase of treasury shares				(1)	(1)
Purchase of treasury shares by stock ownership plan trust				(92)	(92)
Disposal of treasury shares by stock ownership plan trust				443	443
Net changes in items other than shareholders' equity					-
Total changes during period	-	-	5,029	349	5,379
Balance at end of period	2,660	7,213	55,968	(7,286)	58,555

(Million yen)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	8	45	558	611	1,000	54,963
Cumulative effects of changes in accounting policies				-		(175)
Restated balance	8	45	558	611	1,000	54,787
Changes during period						
Dividends of surplus				-		(2,510)
Net income attributable to owners of the parent				-		7,540
Purchase of treasury shares				-		(1)
Purchase of treasury shares by stock ownership plan trust				-		(92)
Disposal of treasury shares by stock ownership plan trust				-		443
Net changes in items other than shareholders' equity	87	(165)	319	240	355	595
Total changes during period	87	(165)	319	240	355	5,974
Balance at end of period	95	(120)	877	852	1,355	60,762

(4) Consolidated Statement of Cash Flows

(Million yen)

	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)	FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)
Cash flows from operating activities		
Net income before income taxes	7,911	11,433
Depreciation	7,044	8,796
Impairment loss	600	492
Amortization of goodwill	58	263
Loss (gain) on liquidation of subsidiaries and associates	(81)	-
Interest and dividend income	(14)	(19)
Interest expenses	148	193
Increase (decrease) in allowance for doubtful accounts	(226)	(42)
Increase (decrease) in provision for bonuses	1	(72)
Increase (decrease) in provision for point card certificates	443	(98)
Loss (gain) on valuation of investment securities	-	100
Decrease (increase) in trade receivables	72	(2,019)
Decrease (increase) in inventories	(3,266)	(4,939)
Increase (decrease) in trade payables	651	2,130
Increase (decrease) in accounts payable-other	(414)	1,728
Increase (decrease) in accrued consumption taxes	(4,021)	232
Other, net	(1,883)	(182)
Subtotal	7,022	17,995
Interest and dividends received	10	26
Interest paid	(148)	(193)
Income taxes paid	(3,381)	(4,367)
Net cash provided by (used in) operating activities	3,504	13,460
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,796)	(6,988)
Purchase of intangible assets	(3,136)	(3,520)
Purchase of investment securities	(202)	(88)
Payments of leasehold and guarantee deposits	(788)	(1,000)
Proceeds from refund of leasehold and guarantee deposits	723	2,555
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(563)	(839)
Other, net	(16)	(82)
Net cash provided by (used in) investing activities	(7,780)	(9,963)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	-	(64)
Proceeds from long-term borrowings	-	200
Repayments of long-term borrowings	-	(692)
Dividends paid	(2,283)	(2,510)
Purchase of treasury shares	(1)	(93)
Repayments of lease obligations	(967)	(1,188)
Other, net	-	(49)
Net cash provided by (used in) financing activities	(3,251)	(4,398)
Effect of exchange rate change on cash and cash equivalents	309	381
Net increase (decrease) in cash and cash equivalents	(7,219)	(519)
Cash and cash equivalents at beginning of period	24,082	16,863
Cash and cash equivalents at end of period	16,863	16,343

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Changes in the Scope of Consolidation or Application of the Equity Method

Important changes in the scope of consolidation

Following the acquisition of shares in OPEN AND NATURAL Inc. through the Company's consolidated subsidiary BUZZWIT Co., Ltd. on March 31, 2022, OPEN AND NATURAL became a consolidated subsidiary (sub-subsidiary) from the first quarter of the current fiscal year. However, only the balance sheet of OPEN AND NATURAL was included in the consolidation as the deemed acquisition date was April 30, 2022 and the period to date of the closure of quarterly consolidated accounts did not exceed three months. The statement of income of this company has been included in the consolidation since the second quarter of the current fiscal year.

Change of fiscal year of consolidated subsidiary

Beginning with the fiscal year that ended in February 2023, the fiscal year end of consolidated subsidiary Zetton, Inc. was changed from the end of February to the end of January. As a result, the consolidated financial statements include the 11-month period of Zetton from March 2022 to January 2023.

In the fiscal year that ended in February 2023, consolidated subsidiaries BUZZWIT Co., Ltd. and ELEMENT RULE Co., Ltd. and four other subsidiaries in Japan changed their fiscal year end from the end of January to the end of February for consistency with the consolidated financial statements. As a result, the consolidated statement of income includes the sales and earnings of these six companies for the 13-month period from February 2022 to February 2023.

Changes in Accounting Policies

Application of Accounting Standards for Revenue Recognition

The Company has applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) and other standards from the beginning of the current fiscal year. Based on these standards, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers. In prior years, to prepare for the redemption of the points granted on sales to customers, the Adastria Group recorded a provision for point card certificates in an amount that reflects the performance of obligation related to the expected redemption of points in the future. The Company has changed to a method that recognizes the points granted as performance obligations, allocates the transaction price, and records it as contract liability.

The application of the Accounting Standard for Revenue Recognition is pursuant to the transitional treatment set forth in the proviso of Paragraph 84 of this standard. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the current fiscal year, was added to or subtracted from retained earnings at the beginning of the current fiscal year, and then the new accounting policy was applied beginning with this amount of retained earnings.

As a result, compared with the previous accounting method, the application of the new standard resulted in reductions of 2,378 million yen in sales, 134 million yen in cost of sales, 2,244 million yen in selling, general and administrative expenses. However, there were no effects on operating profit, ordinary profit and net income attributable to owners of the parent. In addition, the new standard reduced retained earnings at the beginning of the current fiscal year by 114 million yen.

In accordance with the transitional treatment set forth in Paragraph 89 -2 of the Accounting Standard for Revenue Recognition, reclassification based on the new presentation method has not been carried out for the previous fiscal year.

Changes in valuation of inventories

The Company and certain consolidated subsidiaries previously valued its merchandise mainly at cost based on the specific identification method (the amount shown on the balance sheet was calculated by writing down the book value based on a decline in profitability). However, from the current fiscal year, the cost method has been changed to a cost method mainly based on the weighted average method (the value on the balance sheet is calculated by writing down the book value based on a decline in profitability).

The valuation method was changed in view of further globalization of the Group's business and taking the opportunity of upgrade of its backbone IT system.

The effect of this change is insignificant.

Accounting for leases: Application of ASC No. 842 [Leases]

Foreign subsidiaries, that have adopted the U.S. accounting standards, have started applying US GAAP ASC No. 842, Leases (ASC No. 842) standard from the current fiscal year. The cumulative effect of the adoption of ASC No. 842 is recognized at the date of adoption and is an adjustment to retained earnings and lease liabilities related to the right-of-use assets at the beginning of the current fiscal year.

The effect of this change on profit in the current fiscal year is insignificant.

Application of the Accounting Standard for Measurement of Fair Value

The Company has applied the Accounting Standard for Measurement of Fair Value, etc. (ASBJ Statement No. 30, July 4, 2019) from the beginning of the current fiscal year, and has applied the new accounting policies set forth by the Accounting Standard for Measurement of Fair Value, etc. prospectively in accordance with the transitional treatment in Paragraph 19 of the Accounting Standard for Measurement of Fair Value and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). There is no effect of the application of these standards on the consolidated financial statements.

Segment Information

1. Overview of reportable segment

The Adastria Group defines reportable segments as businesses for which financial details can be compiled; the Board of Directors will review this information on a periodic basis in order to assist with decisions about allocating resources and evaluating the performance.

The Adastria Group is engaged primarily in the planning and sales of clothing and related merchandise. The reportable segment is the Apparel and Sundry Goods-related Business.

Information related to revisions for reportable segments

In prior years, there was no segment information because the Adastria Group had only the single reportable segment of planning and sales of clothing and related merchandise. There was no "other" segment because this information was immaterial. Beginning with the fiscal year ended in February 2023, segment information is presented because the importance of the food and beverage business within the Adastria Group has increased.

Segment information for the previous fiscal year that was prepared by using the same segment classification method used for the current fiscal year is not presented because activities other than the planning and sales of clothing and related merchandise is immaterial.

In the previous fiscal year, the planning and sales of clothing and related material was the only significant segment. As a result, segment information prepared by using the same segment classification method used for the previous fiscal year is not presented.

2. Calculation methods for sales, profits/losses, assets and other items for each reportable segment

The accounting treatment methods for reportable segments are generally the same as accounting principles and procedures used for the preparation of the consolidated financial statements.

Profits for reportable segments are generally operating profit figures. Profits on and transfer amounts of inter-segment transactions within the Group are based on current market prices.

3. Information related to sales, profits/losses, assets and other items for each reportable segment

FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)

The Adastria Group has only a single business segment, which is the planning and sales of clothing and related merchandise. There is no others segment because the levels of sales and earnings of other activities are insignificant.

FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)

(Million yen)

	Reportable segment	Other (Note 1)	Total	Adjustment (Note 2)	Amounts shown on consolidated statement of income (Note 3)
	Apparel and Sundry Goods-related Business				
Net sales					
External sales	232,925	9,626	242,552	-	242,552
Inter-segment sales and transfers	1	39	40	(40)	-
Total	232,927	9,665	242,593	(40)	242,552
Segment profit (loss)	12,289	(263)	12,026	-	12,026
Segment assets	104,522	8,520	113,043	(1,651)	111,392
Other items					
Depreciation	8,124	671	8,796	-	8,796
Amortization of goodwill	116	147	263	-	263
Increase in property, plant and equipment and intangible assets	15,256	2,218	17,474	—	17,474

Notes: 1. "Other" represents the businesses which are not included in the reportable segment and mainly consists of Food and Beverage Business.

2. The above adjustments include the following items.

(1) The amount of adjustment to segment profit (loss) is an adjustment to unrealized profit related to inter-segment transactions.

(2) The amount of adjustment to segment assets is elimination for inter-segment transactions.

3. The segment profit is consistent with the ordinary profit of the Consolidated Statement of Income.

4. The segment profit (loss) includes corporate expenses that are allocated to each reportable segment.

5. Depreciation and increase in property, plant and equipment and intangible assets include amortization of long-term prepaid expenses.

Per Share Information

(Yen)

	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)	FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)
Net assets per share	1,192.62	1,309.96
Net income per share	108.72	166.37

Notes: 1. Diluted net income per share is not presented since Adastria has no outstanding dilutive securities.

2. The Adastria stock held by the trust account recorded as treasury shares under shareholders' equity is included in treasury shares deducted from the number of shares that is used to calculate the average number of shares outstanding during the period for the determination of net income per share, and is included in treasury shares that is deducted from the number of shares outstanding at the end of the period for the determination of net assets per share. For the determination of net income per share, the average numbers of treasury shares outstanding that were deducted were 423K for FY2/22 and 329K for FY2/23. For the determination of net assets per share, the numbers of treasury shares deducted were 405K for FY2/22 and 301K for FY2/23.

3. The basis of calculating the net income per share is as follows.

(Million yen)

	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)	FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)
Net income attributable to owners of the parent	4,917	7,540
Amount not available to common stockholders	-	-
Net income attributable to owners of the parent applicable to common shares	4,917	7,540
Average number of common shares outstanding during the period (Thousand shares)	45,229	45,322

Subsequent Events

Not applicable.

This financial report is solely a translation of the Company's Kessan Tanshin (including attachments) in Japanese, which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.