



TSI HOLDINGS

Medium-Term Management Plan 2018 to 2022 Ending February

2017.4.14

Turnaround Offensive

=

Grow Sales and Profits

1 Enhancement of Profitability Basis

- Reinforce weaknesses
- Continuous improvement

2 Acceleration of Growth Strategy

- Further bolster of strengths
- Investment to growth markets

3 Organization Activation/ HR Development

- Investment to “employees” the largest asset of the holdings



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Past Review

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**Medium-Term
Management Strategy**

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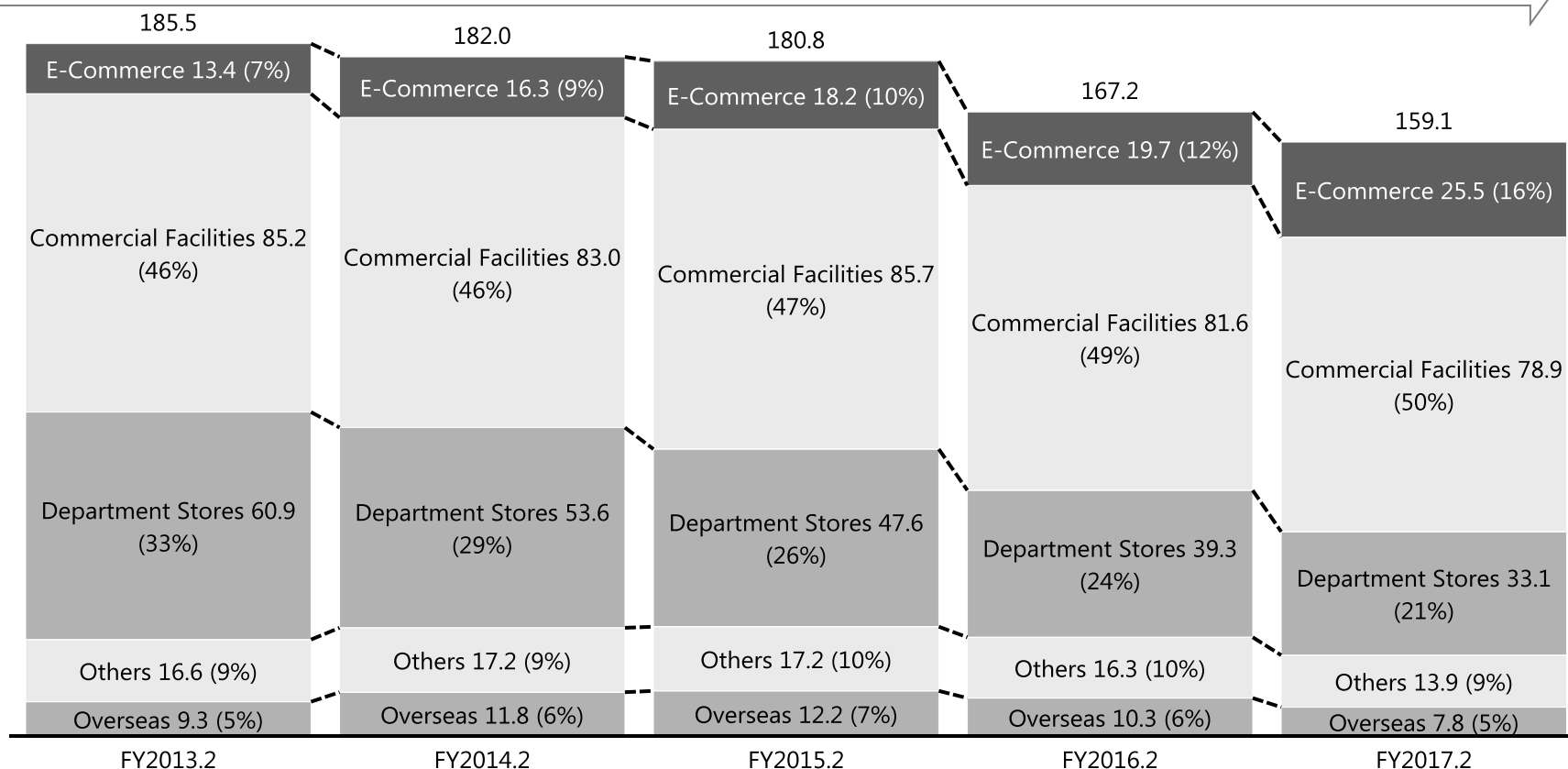
Numerical Goal

Reviewing the past 1: Net sales per channel

Department store sales declined 27.8 billion yen (CAGR -14.2%) over the past five years, whereas E-Commerce sales grew 190% (CAGR +17.4%)

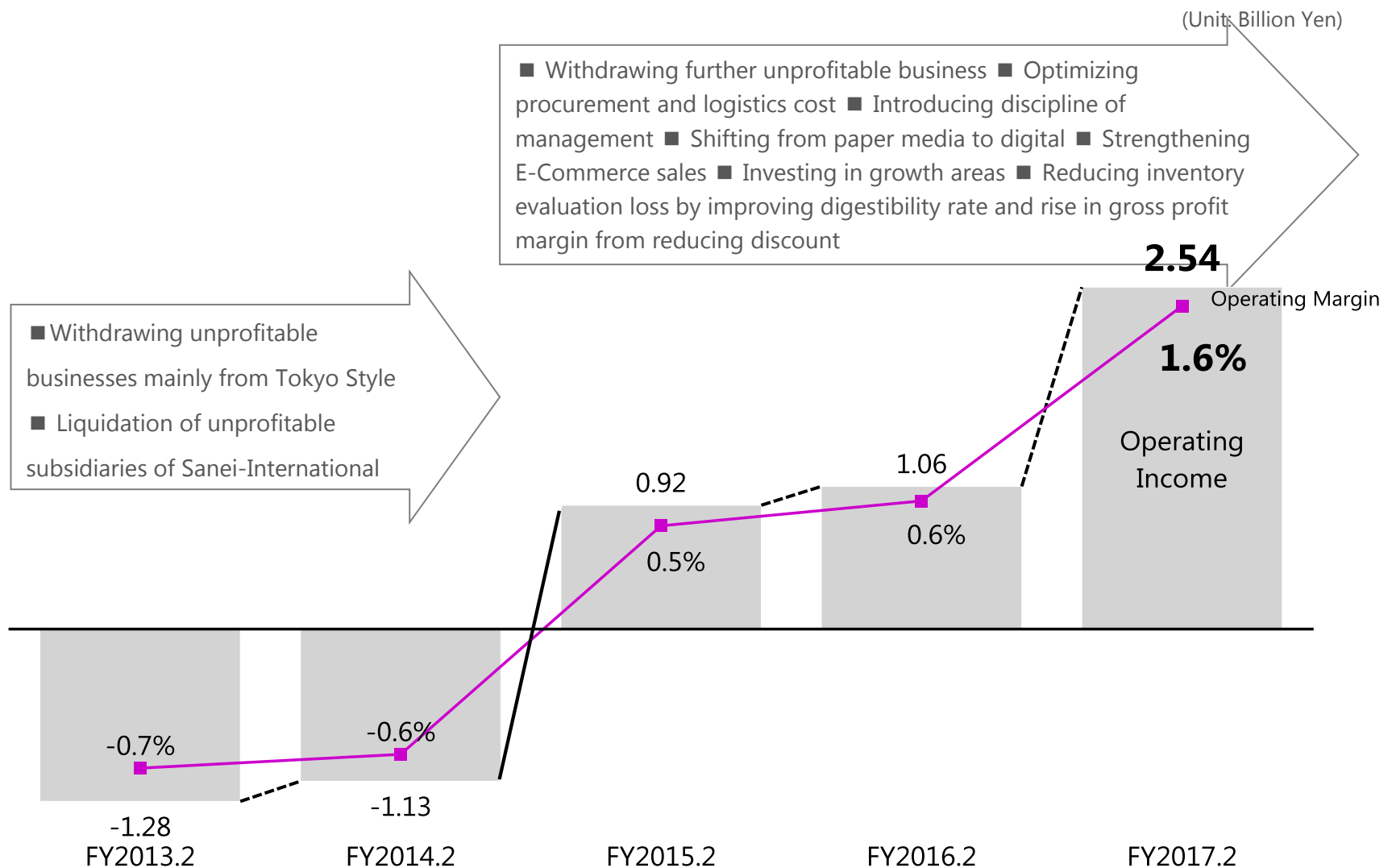
(Unit: Billion Yen)

Expand growth business and E-Commerce sales channel while implementing withdrawal of unprofitable business and stores



* Percentage values in parentheses represent composition ratio of sales in the period

Operating income increased by 3.8 billion yen in 5 years,
operating margin from -0.7% to + 1.6%



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Numerical Goal

Inconvenient Truth

Declining of younger generation	■ Population in the 20s and 40s is -7.3% in 2021, -12.9% in 2026
Urbanization	■ The number of out-migrants exceeds the number of in-migrants, except for the Tokyo areas (Tokyo, Kanagawa, Saitama, Chiba) and Aichi, Fukuoka and Osaka
Difficult to secure shop personnel	■ Effective job offering ratio 1.36 times in 2016
Declining fashion spending in households	■ Decrease by 10% from 12,776 yen to 11,363 yen in the past 10 years
Sluggishness in women's clothing	■ The average annual growth rate of the medium price trend market from 2013 to 2017 is -2.4%. Expecting gradual decrease from -2 to 3% every year in the future(excluding E-Commerce)



Basic Principle

If store sales will continue to decline by 2% each year over the next 5 years, and if store personnel expenses will rise by 10%, about 30% of the stores may subject to be organized = smooth transition to E-Commerce and high-earning stores in urban cities are necessary

Convenient Truth

Growth Prospect of Overseas Market

- The nominal GDP growth rate (2015 to 2025) is +7.6%/year globally, +8.4%/year in Asia
- Explosive growth of upper middle income group (annual income of USD15,000 to 35,000) in India, Indonesia and China: 150 million people in 2015 → 710 million people in 2030

Growth Prospect of E-commerce Market

- Domestic E-Commerce sales : 1.4 trillion yen in 2013 → 2.6 trillion yen in 2020, E-Commerce ratio of 5% in 2013 → 14% in 2020
- Sales through cross-border E-Commerce from Japan to China will grow, roughly tripling from 2015 to 2019

New growth opportunities in the domestic fashion market

- Athleisure market: 3.6 trillion yen in 2016 → 4.6 trillion yen in 2020
- World changing with smart-wear: 0.1 billion yen in 2013 → 500 billion yen in 2020
- Ethical x Factory Online SPA
- Sharing and reuse market

Growth prospect of cosmetics and eating-out market

- Organic cosmetic market growth: 93 billion yen in 2011 → 128.1 billion yen in 2017



Basic Principle

Foresee the room for growth for each category, and concentrate management resources to extend more than market growth

Recognition of Current Situation 3

Shift from expenses cut to gross profit maximization as a measure to generate profits

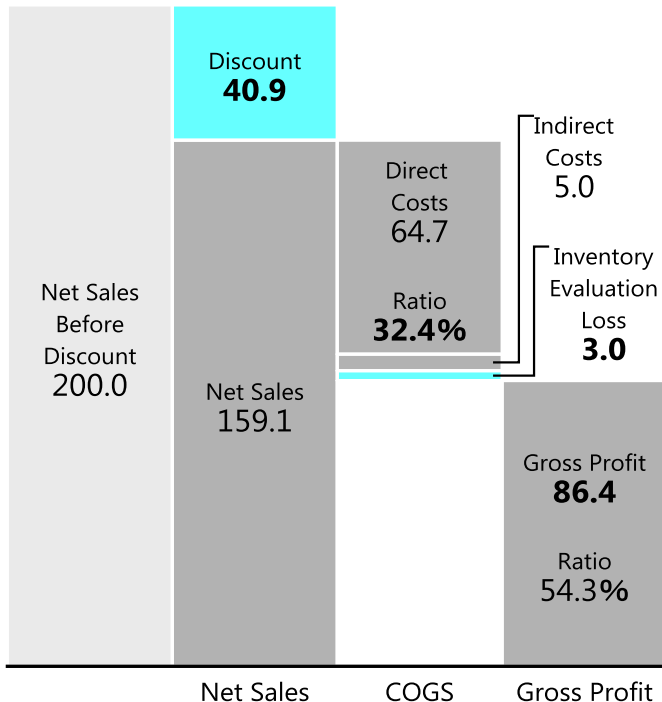
Promote BPR, introduce AI, optimize SCM to minimize discount loss and improve digestibility(= minimize inventory evaluation loss and reduce procurement costs by optimizing purchase volume)

→ Aim to achieve a virtuous cycle by highly value-added manufacturing(=cost rate up) from the source of improvement in gross profit

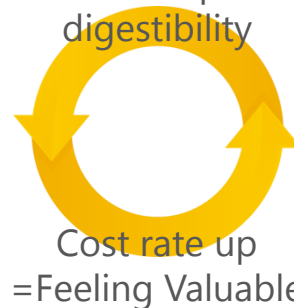
(Unit: Billion Yen)

"REAL WORLD"

Profitability structure image of current TSI



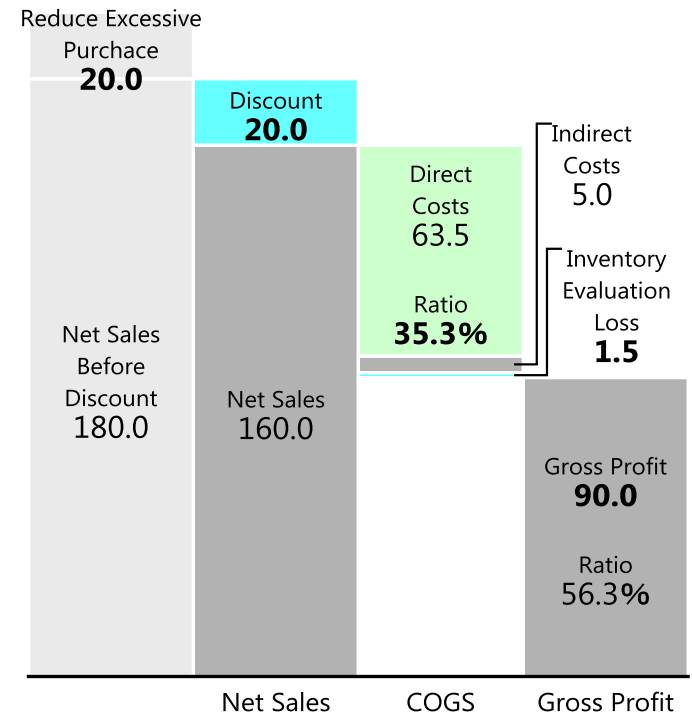
Decrease discount loss and improve digestibility



Cost rate up
=Feeling Valuable

"IDEAL WORLD"

Profitability structure image TSI should aim



* Direct costs ratio = Direct costs/sales before discount

Enhancement of Profitability Basis

(1) Improve Operational Processes

- Push forward with BPR by fully utilizing IT investments and optimize the operations through introducing the core system (TERRA) at all group companies
- Lower SCM cost further by consolidating logistics operations
- Continue the structural reform of low profitability companies
- Introduction of RFID

(2) Marketing Evolution

- Ensure that the direction for each brand reflects the recognition of the brand by consumers, information on rivals and potential customers as found through big data analysis, a set of information that were not able to analyze in the past
- Optimizing media-mix (paper and digital)

(3) Strengthen Sales Skill

- Deploy the NPS initiative to reflect customer feedback in merchandising and sales in the entire group
- Improve employee satisfaction through eNPS
- Push forward with the group-wide total efforts to secure sales personnel

(4) Enhancement of Creation

- Creative Direction seminars intended to educate the group's designers (four times a year)
Share trend analysis and forecast within the group
- Bolster manufacturing through research and development

Acceleration of Growth Strategy

(1)E-Commerce

- Push forward with the winning patterns clarified through BPR and make sure to run the PDCA cycle
- Examine local partners in China and enhance the cross-border E-Commerce
- Accelerate digital investments to support E-commerce business expansion

(2)Overseas

- Expand in-group success experiences based on overseas expansion of domestics
- Expand the business area of M.Tsubomi and SHANGHAI DONGZHISHANG STYLE COMMERCIAL AND TRADING CO., LTD. and acquire new sales channels including E-commerce

(3)M&A

- Seek to discover next-generation seeds
- Ascertain our brands' maximum growth potential and work on M&A to fill the unaddressed "white space"
- Accelerate overseas business expansion through M&A involving foreign companies and partnership to penetrate further in South East Asia

(4)Investments in New Businesses

- Enhance the growth of Israel-originated cosmetics company, Laline JAPAN Co., Ltd. acquired in 2016
- Established Urth Caffé JAPAN → Aim to grow sales and profits through expanding new store openings
- Aim to grow sales and profits through expanding the new store openings of Dominique Ansel Bakery
- Investment in next-generation garment factory corresponding to new consumption style

Organization Activation/ HR Development

Organization

- Promote revision of compensation system and evaluation system of group companies
- Enhancement of motivation-up measures
- Review of paid vacation / childcare leave system etc.
- Standardize personnel-related regulations within the group
- Review of employment rules

HR

- Vitalization of personnel exchange system
- Stable securing and training of sales personnel
- Enhancement of group training system
- Establishment of self-enlightenment incentive system

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Numerical Goal

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Net Sales **200 billion yen**

2

Operating Margin **5.0%**

3

ROE **6.5%**

Numerical Goal 2: Net Sales Target for FY2022.2

Make domestic apparel more efficient and actively invest in growth channel towards sales of 200 billion yen

Net Sales Target After 5 years

(Unit: Billion Yen)

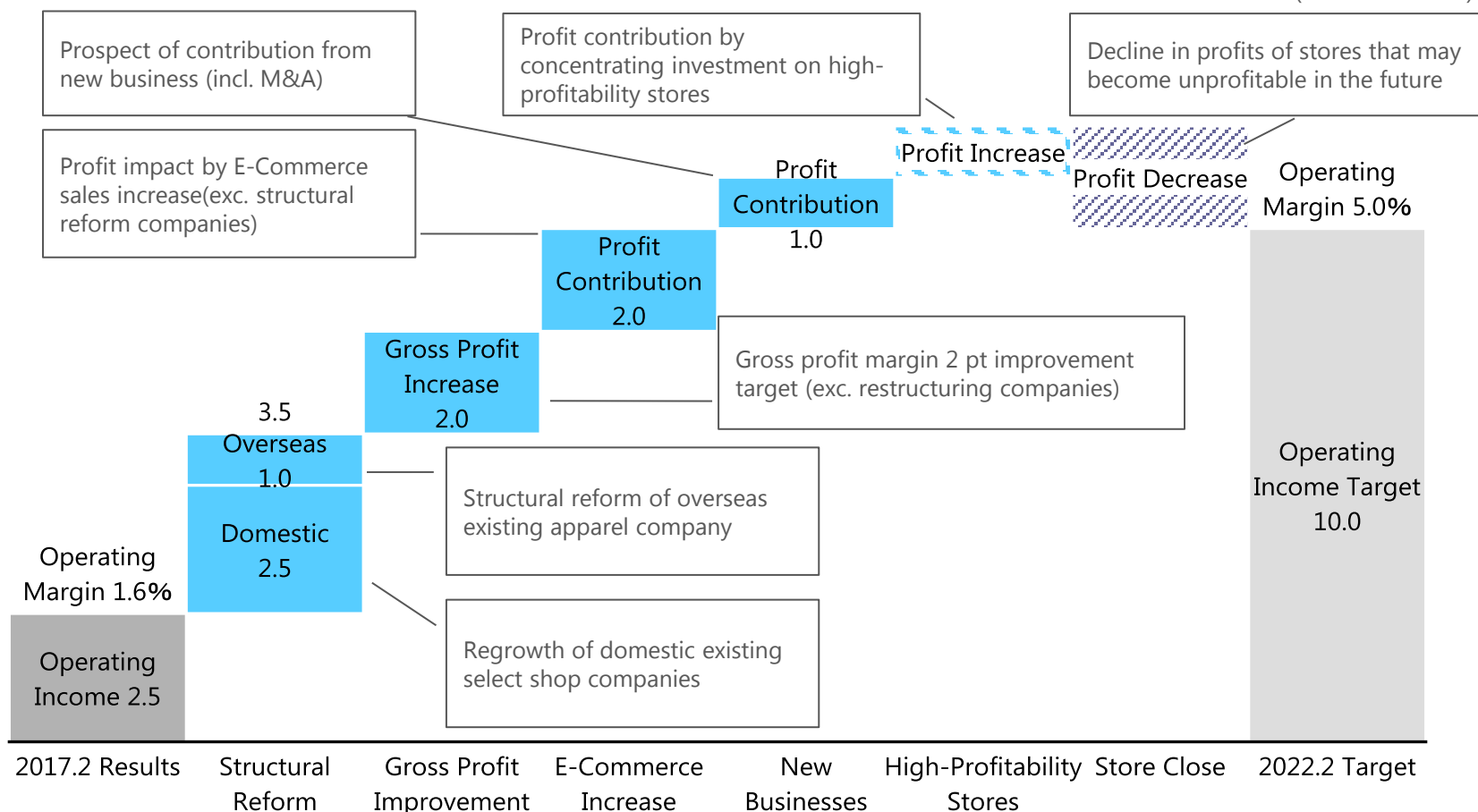
	FY2017.2 Results	Composition	FY2022.2 Goal	Composition	CAGR	
Net Sales	159.1	100.0%	200.0	100.0%	+4.7%	Net Sales 200.0
Continue+New Businesses	154.3	97.0%	200.0	100.0%	+5.3%	Continue+New Businesses CAGR +5.3%
Domestic Net Sales	146.8	92.3%	180.0	90.0%	+4.2%	Domestic Apparel Related(exc. E-Commerce) CAGR +0.8%
Domestic Apparel Related Subtotal	145.3	91.3%	175.0	87.5%	+3.8%	E-Commerce Ratio 25.0%
Apparel Related(exc. E-Commerce)	119.8	75.3%	125.0	62.5%	+0.8%	Overseas Ratio (Apparel+Cosmetics+Food) 10.0%
E-Commerce	25.5	16.0%	50.0	25.0%	+14.4%	Cosmetics+Food (Domestic+Overseas) 10.0
Cosmetics/Food	1.5	0.9%	5.0	2.5%	+27.2%	
Overseas Net Sales	7.5	4.7%	20.0	10.0%	+21.7%	
Apparel	7.5	4.7%	15.0	7.5%	+14.9%	
Cosmetics/Food	-	-	5.0	2.5%	-	
Withdrew Businesses	4.8	3.0%	-	-	-	

Numerical Goal 3: Operating Income Target for FY2022.2

Promote permanent profit improvement of existing business and increase earnings of new business to achieve operating income of 10 billion yen

Operating Income Target After 5 years

(Unit: Billion Yen)



Page#	Word/Phrase	Meaning
3	CAGR	Stands for "Compound Annual Growth Rate", annual growth rate over a specified period of time longer than one year.
4	Digestibility	The ratio of the number of sales to the number of purchases.
7	Cross-border E-commerce	E-commerce that not only sells domestically, but also internationally via foreign languages sites for oversea consumers.
	Athleisure	A word combining athletics and leisure, which is a fashion style mainly composed with sportswear.
	Smart-wear	It is a worn item that fuses with IT and can detect biological information such as heart rate and momentum etc.
	Ethical	The fashion that is being produced and circulated conscientiously is called "Ethical fashion".
	SPA	Stands for "Specialty store retailer of Private label Apparel", a business model of apparel that an integrated way from product planning, design, production to retail sales by the corporation.
	Sharing	A service that mediates lending of assets owned by companies and individuals.
	Reuse	To reuse the used product as it is, or with some changes.
	Organic Cosmetics	Cosmetic that incorporates natural origin as the main ingredient.
8	BPR	Stands for "Business Process Reengineering", which improves profitability by drastically revising and redesigning the existing operation flows and contents.
	AI	Stands for "Artificial Intelligence", which attempts to make the same intelligence as human beings by computer or/and technology.
	SCM	Stands for "Supply Chain Management", which is a system for creating profit by reviewing the entire flow from procurement, manufacturing, logistics to sales beyond the company boundaries.
9	TERRA	The name of the core system of TSI Holdings group.
	RFID	Stands for Radio-frequency identification, uses electromagnetic field to identify track tags attached to items, and communicate within peripheral field.
	Big Data	Data that is much bigger and more diverse than existing data that companies used. It is based on data such as customer information, purchase histories accumulated in E-commerce and SNS, etc., and is utilized for businesses in various fields.
	NPS	Stands for "Net Promoter Score", and is an index for measuring loyalty. Customers are asked: "What is the likelihood of you recommending our company to your friends?" and then asked to score the possibility from 0 to 10 points. Those who scored 9 to 10 are called promoters, those who score 7 to 8 are neutral and those who score 6 and under are detractors; the rate of detractors is deducted from the rate of promoters. The customers are also asked to comment on how it can be improved, and these improvement measures are shared in the company and lead to improvement actions.
	eNPS	This is for disseminating NPS to employees, and improving their loyalty to the company.
	Creative Direction	In-house seminars to analyze social trends, translate them into fashion trends, and reflect them on actual manufacturing.
10	PDCA	Stands for "Plan, Do, Check and Action", meaning a method of improving operations continuously by repeating these four phases.
	M&A	Stands for the Merger & Acquisition of companies.

Cautionary Statement

Descriptions within this document such as earnings forecasts are based on the information that the company obtains on the date of this report and certain assumptions deemed to be reasonable. Actual earnings may differ materially from various future factors.