



# TSI HOLDINGS

## Results Briefing: Q2ND(March to August 2016) Results of 2017 Ending February

2016.10.17



## I. Results Overview



Achieved the highest profits since the establishment of the holdings  
by improving gross profit and driving down SG&A expenses

(Unit: Million Yen)

	Cumulative Q2ND 2016 Ending Feb.		Cumulative Q2ND 2017 Ending Feb.					
	Results	Composition Rate	Original Forecast	Results	Composition Rate	Y/Y Change	Y/Y	Against Forecast
Net Sales	83,573	100.0%	81,500	77,181	100.0%	-6,391	92.4%	94.7%
Gross Profit	44,782	53.6%		42,214	54.7%	-2,568	94.3%	-
SG&A Expenses	45,204	54.1%		41,383	53.6%	-3,820	91.5%	-
Employment Costs	19,468	23.3%		17,008	22.2%	-2,459	87.4%	-
Business Strategy Costs	2,870	3.4%		2,474	3.0%	-395	86.2%	-
Store Rents	8,858	10.6%		8,148	10.6%	-709	92.0%	-
Other Expenses	10,706	12.8%		10,726	13.9%	+20	100.2%	-
SG&A Expenses(exc. Goodwill Amortization, Depreciation and Amortization)	41,903	50.1%		38,359	49.7%	-3,544	91.5%	-
Goodwill Amortization	713	0.9%		655	0.8%	-58	91.8%	-
Depreciation and Amortization	2,587	3.1%		2,369	3.1%	-218	91.6%	-
Operating Income	-422	-0.5%	100	830	1.1%	+1,252	-	830.4%
Ordinary Income	613	0.7%	1,000	1,236	1.6%	+622	201.4%	123.7%
Extraordinary Income	2,997	3.6%		347	0.5%	-2,650	11.6%	-
Extraordinary Loss	4,426	5.3%		651	0.8%	-3,775	14.7%	-
Profit Before Taxes	-815	-1.0%		932	1.2%	+1,747	-	-
Profit Attributable to Owners of Parent	-1,462	-1.7%	400	505	0.7%	+1,968	-	126.5%
EBITDA	2,878	3.4%		3,854	5.0%	+976	133.9%	-

\*Employment Costs = Personnel Expenses + Subcontract Costs + Commission

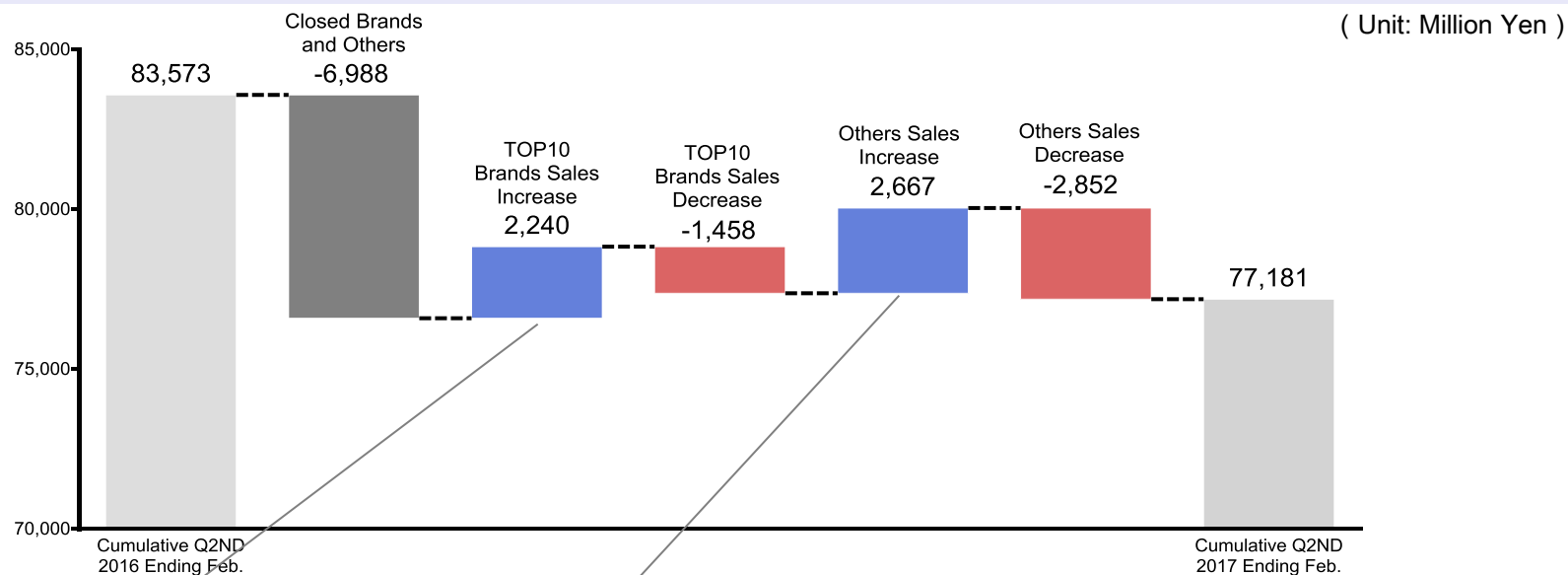
\*Business Strategy Costs = Advertising and Sales Promotion Expenses

\*EBITDA = Operating Income + Goodwill Amortization + Depreciation and Amortization

(Unit: Million Yen)

Accounting Item		Content		Result	➡ Cumulative Q2ND 2017 Ending Feb.
Net Sales	➡	E-commerce	➡	E-commerce sales growth +26.8% Y/Y	77,181 (92.4% Y/Y)
COGS (Cost of Goods Sold)	➡	Revaluation Loss	➡	Approx. 100 million yen cost cut Y/Y	34,966 (90.1% Y/Y)
		Direct Trading Ratio	➡	Last FY results 11.8% → 12.0% at Q2ND 2017 Ending Feb.	
Gross Profit	➡	· Set KPI for yield ratio and digestion ratio · 7 measures of BPR			42,214 (94.3% Y/Y)
Business Strategy Cost	➡	Paper Media	➡	400 Million yen cut Y/Y	2,474 (86.2% Y/Y)
		Digital	➡	100 Million yen increase Y/Y	
Other Expenses	➡	Sales Personnel Incentive	➡		38,909 (91.9% Y/Y)
		Procurement Project	➡	Approx. 850 million yen cut Y/Y	
		TERRA/Integration of warehouses	➡	Expand the unified core system to group companies, integration of logistics warehouses of subsidiaries	
		BPR	➡	Streamline organization	
Operating Profit	➡				830 ( -% Y/Y)

## Net sales of continuing brands (excluding withdrew brands and others) was 100.8% Y/Y

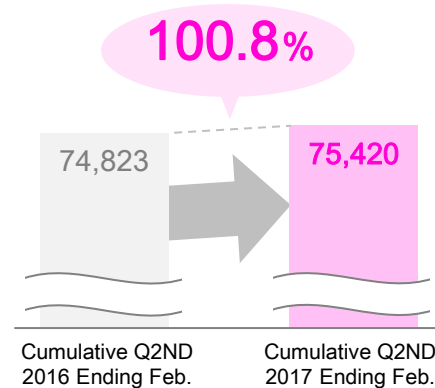


- **nano· universe**  
Shop# 72(+11 Y/Y)
- **NATURAL BEAUTY BASIC**  
Shop# 95(+5 Y/Y)
- **PEARLY GATES**  
Shop# 68(+5 Y/Y)
- **STUSSY**  
Shop# 54(+3 Y/Y)

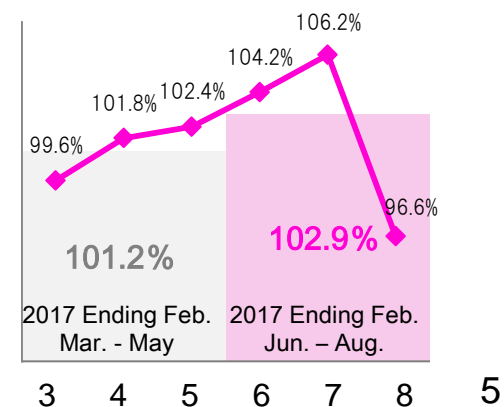
- **Apuweiser-Riche**  
Shop# 16(-1 Y/Y)
- **JILL by JILLSTUART BASIC**  
Shop# 23(+1 Y/Y)
- **JILLSTUART**  
Shop# 32(+1 Y/Y)
- **JUSGLITTY**  
Shop# 14(+0 Y/Y)
- **22 OCTOBRE**  
Shop# 42(-16 Y/Y)
- **enchainement mignon**  
Shop# 14(Joined the group on 3/1)
- **N. Natural Beauty Basic**  
Shop# 13(+3 Y/Y)

### Continuing Brands Comparison

#### ① Financial Net Sales



#### ② Monthly Revenue(All Stores)



Pearly Gates, Stussy etc. continued to grow healthily,  
thus net sales of TOP10 was 101.6% Y/Y

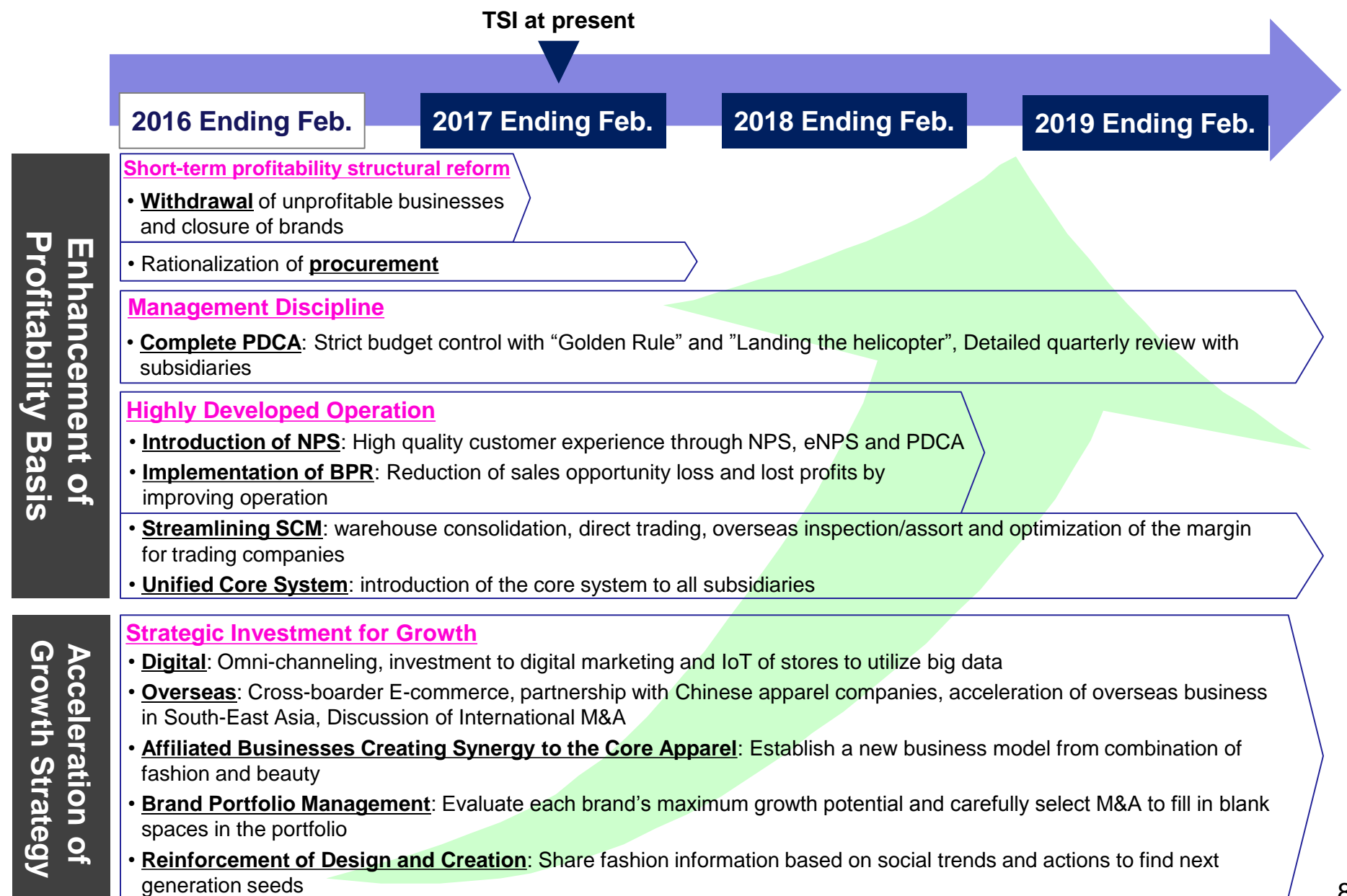
(Unit: Million Yen)

Brand	Cumulative Q2ND 2016 Ending Feb.			Cumulative Q2ND 2017 Ending Feb.			Y/Y	
	Sales	Composition	Gross Profit Ratio	Sales	Composition	Gross Profit Ratio	Sales	Gross Profit Ratio
1 nano· universe	10,647	12.7%	58.4%	11,240	14.6%	52.9%	105.6%	-5.5pt
2 NATURAL BEAUTY BASIC	7,890	9.4%	57.4%	8,403	10.9%	56.1%	106.5%	-1.3pt
3 MARGARET HOWELL	6,505	7.8%	54.6%	6,431	8.3%	57.6%	98.9%	+3.0pt
4 PEARLY GATES	4,251	5.1%	43.3%	4,965	6.4%	51.3%	116.8%	+8.0pt
5 ROSE BUD	5,256	6.3%	49.5%	4,657	6.0%	48.9%	88.6%	-0.6pt
6 STUSSY	2,788	3.3%	67.2%	3,210	4.2%	69.2%	115.1%	+2.1pt
7 HUMAN WOMAN	2,477	3.0%	46.7%	2,473	3.2%	50.4%	99.9%	+3.7pt
8 Free's Mart	2,531	3.0%	53.6%	2,458	3.2%	54.4%	97.1%	+0.8pt
9 PROPORTION BODY DRESSING	2,390	2.9%	49.4%	2,313	3.0%	54.3%	96.7%	+4.9pt
10 & by P&D	2,643	3.2%	51.7%	2,011	2.6%	49.7%	76.1%	-2.1pt
TOP10	47,383	56.7%	54.2%	48,164	62.4%	54.5%	101.6%	+0.3pt
Other Brands	27,439	32.8%	56.8%	27,255	35.3%	55.9%	99.3%	-0.9pt
Continuing Brands	74,823	89.5%	55.1%	75,420	97.7%	55.0%	100.8%	-0.1pt
Withdrew Brands and Others	8,749	10.5%	40.3%	1,761	2.3%	42.0%	20.1%	+1.7pt
Total	83,573	100.0%	53.6%	77,181	100.0%	54.7%	92.4%	+1.1pt



## II. Progress of Growth Strategy







### Measures implemented during Q2ND 2017 Ending Feb. and Action plans for future

#### Enhancement of Profitability Basis

Portfolio Management	<ul style="list-style-type: none"> <li>Due to last FY's structural reform, operating profits of 11 subsidiaries increased Y/Y(8 subsidiaries last FY), Tokyo Style became black ink the first time after TSI Holdings was established.</li> <li>Business category change of &amp;by P&amp;D(withdrew of real store business), and transfer of Vivienne Tam</li> <li>Forming plans of structural reform for nano · universe and ROSE BUD</li> </ul>
Complete PDCA	<ul style="list-style-type: none"> <li>13 brands of 4 subsidiaries are implementing → In addition to Sanei bd, the subsidiary implemented from last year, pilot stores in 3 companies are sharing best practices.</li> </ul>
Introduction of NPS	<ul style="list-style-type: none"> <li>NPS survey: 13 brands from 3 companies are implementing</li> <li>eNPS survey: 16 brands from 5 companies completed → Human Woman from Sanei International completed the second survey and eNPS score has improved 5.0%pt</li> </ul>
Implementation of BPR	<ul style="list-style-type: none"> <li>Among 7 specified measures, trial phase of “MD plan from styling perspective”, “improvement of store distribution accuracy of items”, “stock accommodation among stores” and “logical decision making of mark down” were completed</li> <li>Full-fledged introduction will take place in the second half of 2017 Ending Feb.</li> </ul>
Rationalization of Procurement	<ul style="list-style-type: none"> <li>Through the procurement project continuing from the last FY, 850 million yen cost Y/Y cut was achieved in Q2ND 2017 Ending Feb.</li> </ul>
Streamlining SCM	<ul style="list-style-type: none"> <li>Aiming for 18.4% of the direct trading ratio from 11.8% the record of last FY(12.0% in Q2ND 2017 Ending Feb.)</li> <li>Integrated logistics centers of 5 subsidiaries into 2 centers →Integration of Tokyo Style, Sanei bd and outlet businesses were completed by August →Integration of Anglobal and d'un à dix will take place in Q3RD</li> </ul>

### Measures implemented during Q2ND 2017 Ending Feb. and Action plans for future

## Acceleration of Growth Strategy

### EC/Digital

- Sequential release of smartphone apps of brands in the second half of 2017 Ending February
- Stock linkages of 10 3<sup>rd</sup> party E-commerce websites were completed, planning to link 2 other 3<sup>rd</sup> party e-commerce websites by the end of this FY
- Using olapic, the US venture's service to link brands' e-commerce websites and Instagram
- JILLSTUART and JILL by JILL STUART's DTC , T-MALL GLOBAL and TAOBAO were started in September
- Pearly Gates' DTC sites are planning to be open by the end of October
- Installation of RetailNext, a latest US store IoT platform, to 12 shops of 7 brands in November

### M&A/ Overseas

- M&A of d'un a dix(Female apparel) on March 1<sup>st</sup> and Laline JAPAN(Natural cosmetics in Israel) on June 1<sup>st</sup>  
→Continuing PMI(Post Merger Integration) for management integration and synergy creation within the group
- M&A of Foral(Job-search services) on September 30<sup>th</sup>  
→Securement of sales personnel for basis enhancement
- Continuing consideration of M&A and partnership of Chinese and South East Asian companies

### Reinforcement of Design and Creation

- Conducted creative direction seminars to review season trends and social movement for MDs and designers of subsidiaries
- 2017 Spring/Summer seminars will start from this week at 10 subsidiaries

**Basic Principle**

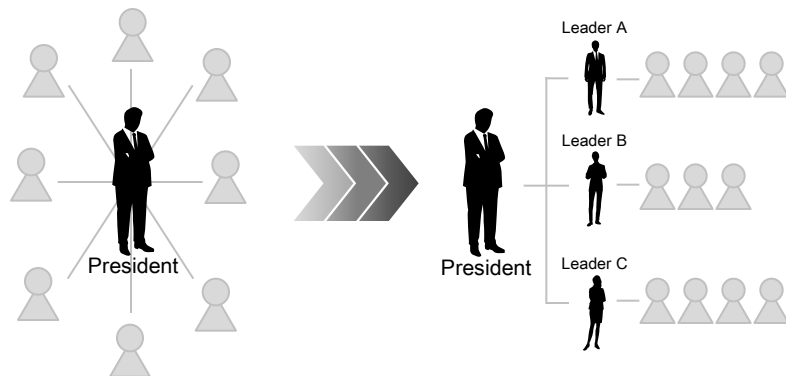
Strengthen group governance through improvement of management culture for regrowth

**Personnel/Organization****President Change**

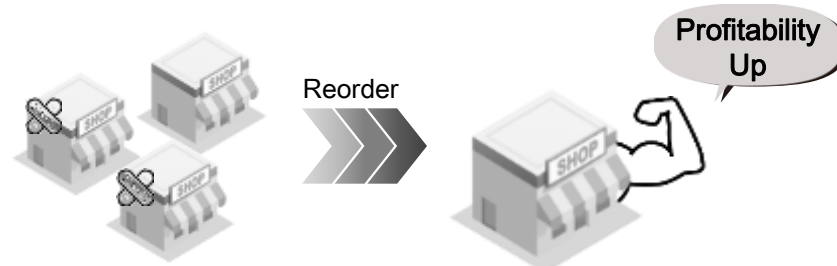
- ▶ Establishment of team management from founder-driven leadership management

**Streamlining of organization and personnel**

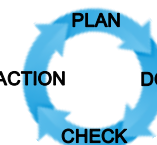
- ▶ Speed up of decision making by subsidiarity

**Business****Wind up low profitability business and stores**

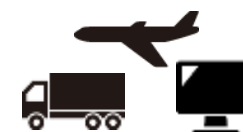
- ▶ Enhance profitability of each business and store

**Rationalization from specified measures of BPR**

- ▶ Improvement of work flow  
Review and improve existing business operation flow
- ▶ Cost Cust  
Integrate under the holdings' strategy and increase competing power of cost
- ▶ Logistics and IT infrastructure consolidation

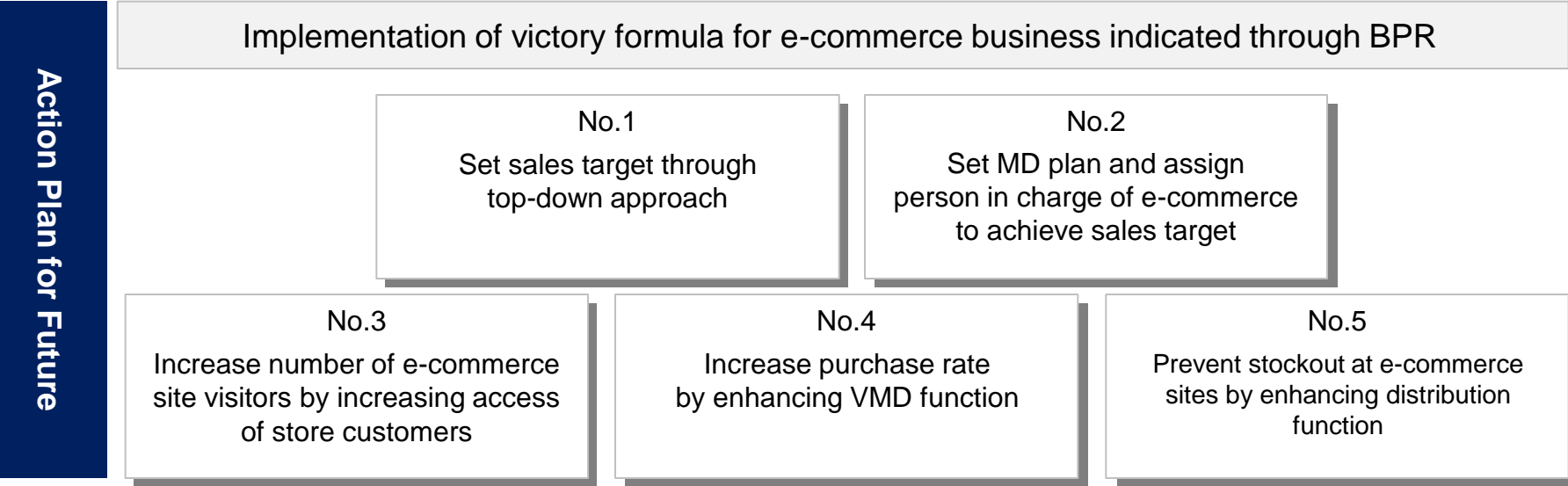
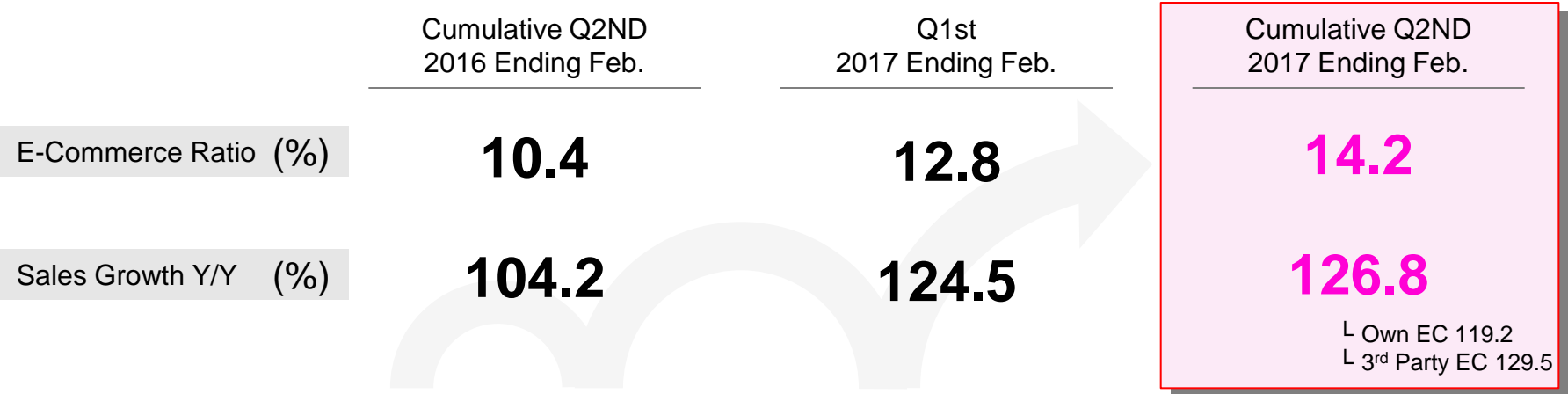


COST DOWN



▶ Form regrowth plan and put it into effect immediately, to establish regrowth quickly as soon as possible

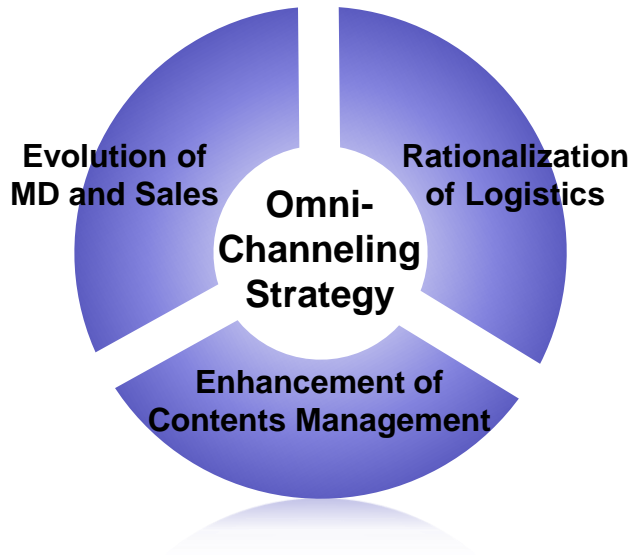
**Progress** Strong growth continues due to aggressive investment to e-commerce business



▶ In addition to the increase of e-commerce ratio, sales growth target will also be added as the objectives to achieve dramatic growth in e-commerce business

## Basic Principle

Setting “Omni-channeling” strategy at the center, aiming to evolve existing brand business for the upcoming era



### Evolution of MD and Sales

#### Evolve from the existing brand business

Measures	Contents / Examples
Thorough prevention of stockout at e-commerce	· Check stockout twice a week and allocate stock immediately if missing(nano · universe)
Sharing of customer info	· Share purchase information at the e-commerce site with stores(Arpege)
High quality customer service as the same level of stores	· Item pages with employees wearing items so that customers can picture the image of them wearing(Arpege) · Detailed photos of items and comments to present specs for further understanding(nano · universe)
Traffic to e-commerce and stores	· Maximize SEO at web through cooperation with google · Notifications to smartphones through brand app, to secure customers' traffic to e-commerce and stores(nano · universe)
MD plan integrating E-commerce business	· Assign dedicated MDs for e-commerce, who is responsible for ordering and purchasing items as same as store MDs(nano · universe)

### Enhancement of Contents Management

#### Implementation of measures directly connect to conversion rate

Measures	Contents / Examples
Producing contents correspond with production of items	· In-house shooting, measurement and text making of items(nano · universe) · Thorough check of outsourcing contents from its direction and quality, every other week for a few hours(Arpege)
Visualization of PDCA cycle	· Setting models, styling, background, posing, processing etc. with the original EXCEL format and monitoring selling status for effect measurement of images(nano · universe)

### Rationalization of Logistics

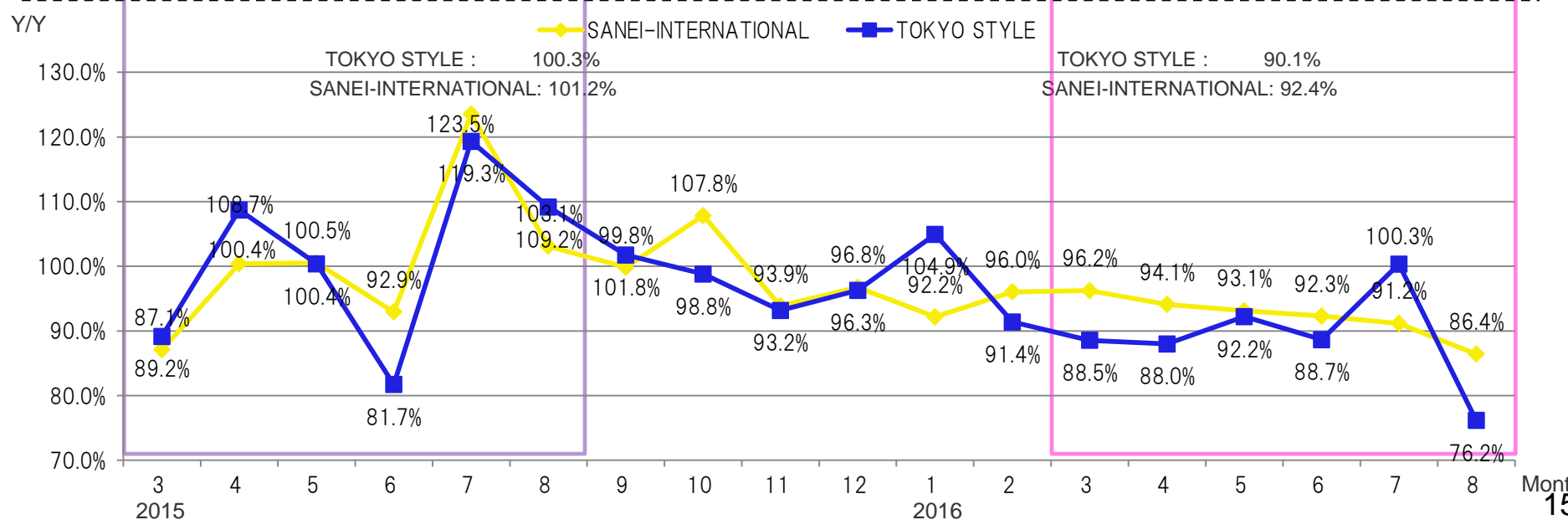
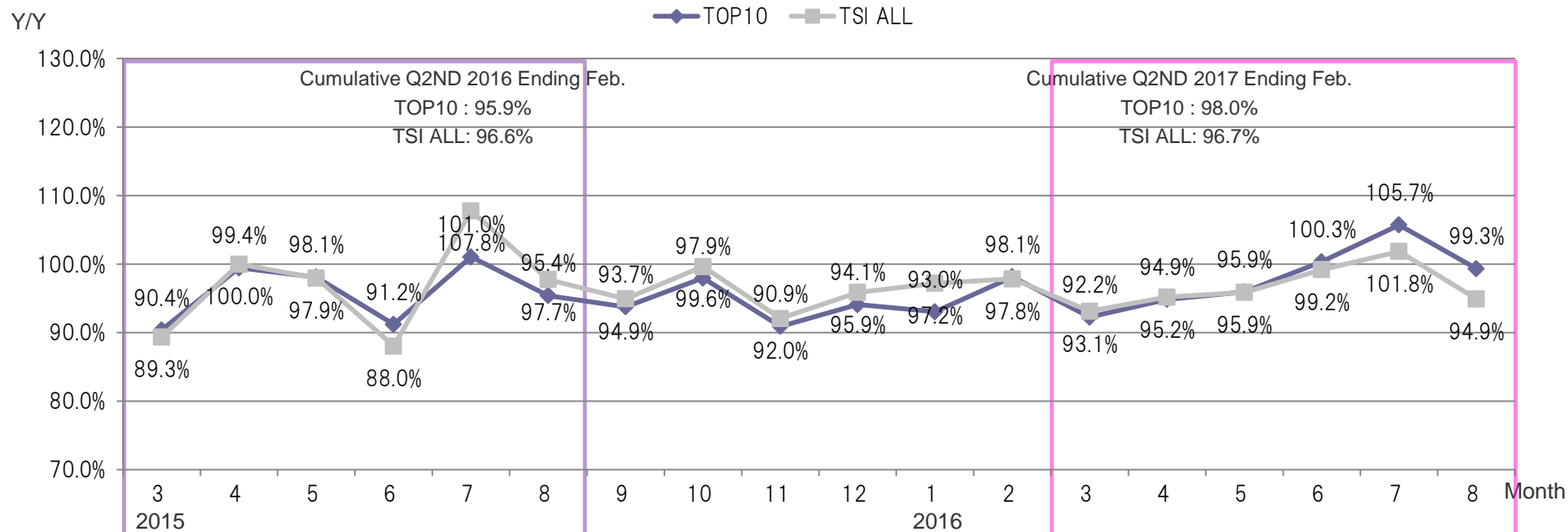
#### Shift from B2B logistics to B2C logistics

Measures	Contents / Examples
Standardization of logistics basis	· Integrated logistics centers of 5 subsidiaries into 2 centers
Fine services to meet needs of consumers	· Return policy, reasonable delivery fee, delivery speed etc.

### III. Reference Data







(Unit: Million Yen)

	Cumulative Q2ND 2016 Ending Feb.		Cumulative Q2ND 2017 Ending Feb.			
	Results	Composition Rate	Results	Y/Y	Composition Rate	Composition Rate Y/Y Change
Department Stores	20,520	24.6%	16,385	79.8%	21.2%	-3.3pt
Commercial Facilities(*1)	40,969	49.0%	39,414	96.2%	51.1%	+2.0pt
E-Commerce	8,652	10.4%	10,971	126.8%	14.2%	+3.9pt
Overseas	5,232	6.3%	3,685	70.4%	4.8%	-1.5pt
Others(*2)	8,198	9.8%	6,723	82.0%	8.7%	-1.1pt
Total	83,573	100.0%	77,181	92.4%	100.0%	-

\*1 Fashion buildings, shopping centers, railroad buildings, individual stores, outlet shops etc. except for department stores

\*2 Apparel businesses such as wholesale, in-company sales and non-apparel businesses of the group companies

		Q2ND 2016 Ending Feb.	Q1ST 2017 Ending Feb.	Store Open	Store Close	Q2ND 2017 Ending Feb.
Domestic	# of stores	1,362	1,381	7	153	1,235
	Change	-261	50			-146
Overseas	# of Stores	225	222	1	9	214
	Change	-5	-5			-8
Total	# of Stores	1,587	1,603	8	162	1,449
	Change	-266	45			-154

\*Number indicated on "Change" rows are comparison with its previous quarter

\*Stores of Callaway Apparel(23 Stores in Q1ST 2017 Ending Feb.) are excluded by store close due to operation under equity method company from Q2ND

Page	Word/Phrase	Definition
4	Direct Trading Ratio	Ratio of manufacturers take up the trading business for imports/exports themselves against all the imports
	Procurement Project	Project to streamline costs of purchase of materials, equipment and consumables that are not directly related to the manufacturing.
	TERRA	The name of the core system of TSI Holdings group.
	BPR	Stands for "Business Process Reengineering", which improves profitability by drastically revising and redesigning the existing operation flows and contents.
8	PDCA	Stands for "Plan, Do, Check and Action", meaning a method of improving operations continuously by repeating these four phases.
	Golden Rule	The rule to maintain increase of SG&A expenses less than that of net sales.
	Landing the helicopter	A method to ensure earning of the planned profit when net sales is missing the target by controlling expenses.
	Quarterly Review	Documents for managing the performance status of operating companies every quarter. It is used to list issues found from various managerial indexes, and to create and perform improvement measures.
	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.
	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.
	Omni-Channeling	To have contact with customers at all channels including stores, Internet stores, mobile stores, etc. Data of stocks and memberships as well as logistics are integrated, and it enables to provide purchase experience regardless of differences between real stores and Internet stores.
	Digital Marketing	Promotion of products using electrical media such as the Internet and smartphone apps.
	IoT	Stands for "Internet of Things", which means to change consumers' lives and businesses by connecting virtually everything to the Internet except information devices, e.g. PC and smartphones.
	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.
	Cross-border E-commerce	E-commerce that not only sells domestically, but also internationally via foreign languages sites for oversea consumers.
	M&A	Stands for the Merger & Acquisition of companies.
	Brand Portfolio Management	A brand management method for making rational investment decisions analysing brands' market values and growth potentials by systematizing multiple brands according to customers' age and taste and visually mapping each brand.

Page	Word/Phrase	Definition
9	Best Practice	Procedures, processes, measures etc. that are accepted as being correct or most effective.
	Styling	To create an effective style by combining one product with other products and items.
	Markdown	Deduction of the price.
10	Olapic	A picture platform business of the US venture "olapic," which enables the user to easily get permission to use user generated contents(UGC) posted on Instagram.
	DTC	Stands for "Direct to Consumer", which means selling products/items directly to consumers.
	T-Mall	The B2C e-commerce site operated by alibaba group.
	Taobao	The B2B e-commerce site operated by alibaba group.
	RetailNext	An IoT platform that is provided by the major US store analyzer, RetailNext. They install cameras in stores for detailed data analysis, collecting and analyzing information such as the customer visit rate and customer attribution etc. in order to increase selling efficiency.
	Synergy	To cooperatively operate multiple companies and organizations to create a bigger effect and results than each could achieve by operating separately.
	PMI	Stands for "Post Merger Integration", meaning an integration process after an M&A agreement. In order to maximize the synergy effect between the two companies in M&A, it aims at achieving organic functions of systems, etc.
	MD Creative Direction	A job type that comprehensively manages products i.e. from product development, sales planning, to budget management in an apparel company. Diverse jobs such as market research, analysis of successful products, promotions and purchase are included in his/her job, and planning, selling and delivery are managed. In-house seminars to analyze social trends, translate them into fashion trends, and reflect them on actual manufacturing.
12	E-commerce ratio	The ratio of e-commerce sales against the whole net sales.
	VMD	Stands for "Visual Merchandising", which means a marketing method to promote and drive purchase of customers through visual presentation of items and stylings.
13	SEO	Stands for "Search Engine Optimization", which means optimizing measures to maximize the exposure of a website in a research result.
	Conversion Rate	The rate of actions performed in a way expected by the users (e.g. As for an expected action in a store (to purchase a product), the rate of number of customers who purchased a product against the number of customers who entered the store is the conversion rate).

- ❑ The amounts given in this material are rounded down to the nearest million yen
- ❑ The forecast performance for TSI Holdings indicated in this material is based on the assessments/assumptions from the information available as of this material's date. Actual performance may differ depending on various factors.