



TSI HOLDINGS

**TSI HOLDINGS CO., LTD.**

Financial Results Briefing for the Fiscal Year Ended February 2019

April 11, 2019

## Medium-term management vision

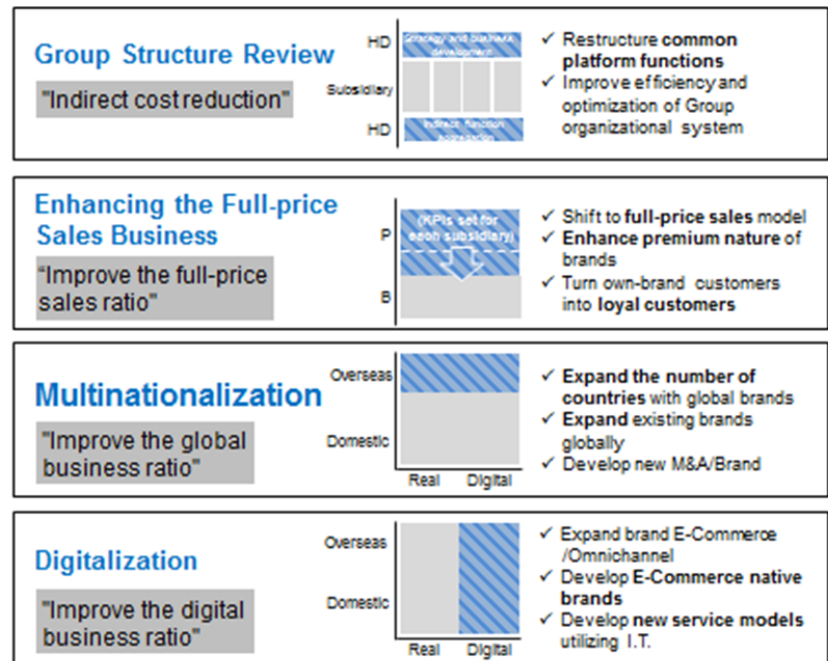
# The Brand Builder

The Brand Builder is our Medium-Term Management Vision, or our concept. Since I was appointed, I have talked about the distinctiveness of our brand. We will grow brands that can survive globally by growing with our hands, whether it is a brand that we have created on our own, an acquired brand, or a brand we have taken over. Building a brand is a common theme for the entire Group.

Our concept is that any brand that we do will be shown cool and nice and expanded, and will be deployed abroad and in e-commerce. Since we have embarked on this concept, we intend to continue to do everything with this concept in the future. This is Brand Builder, our medium-term vision.

## Strategic Direction

We will change the core of our business and our Group structure to ensure the medium- to long-term growth.



On the fourth page, there are four major directions for the medium term. First, we review our group structure. The main theme is how to deal with the current situation in which more than 20 companies operate in a discrete manner. The first thing is to put a certain amount of attention on this.

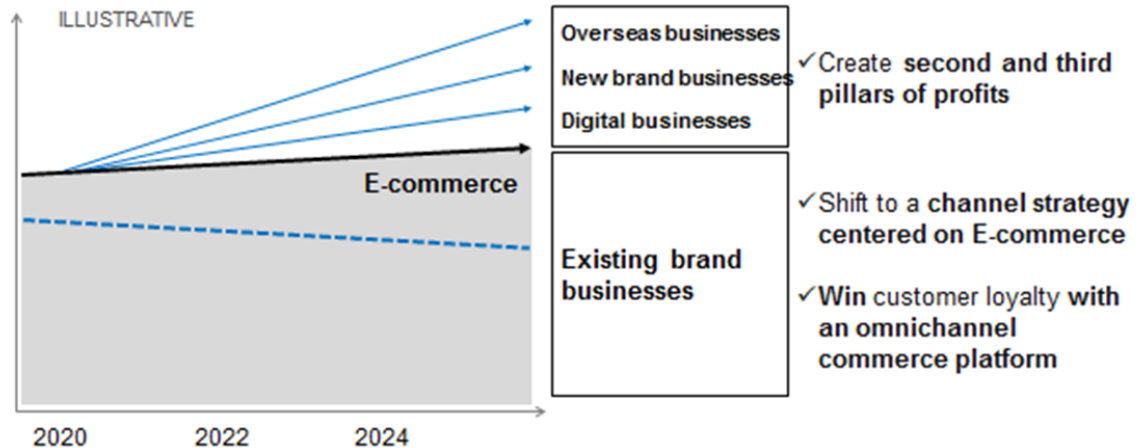
Second, making a proper business. This is an ongoing issue, and this will be done all the time.

Then, becoming a multinational corporation, and gradually increase the number of global brands. We will raise the overseas business ratio a little. This does not mean globalization. As for our brands that did well overseas, Margaret Howell, for example, we left the business to the English people. As for unsuccessful Chinese operations, we tried to do business among Chinese who speak Japanese with Japanese people. The result was clear. If we don't have the local people play an increasingly active role, we cannot survive. So, we aim to be a multinational corporation as a theme.

The last is digitalization. In addition to raising the e-commerce ratio, with technology in many ways, it is easier to offer products with proper prices and higher costs to customers. So, we will increase the proportion of businesses using certain types of digital technology and invest in it properly. These are four key strategies.

## Target Business Portfolio

We set global/Digital (including EC)/New brand business as key investment area.  
Achieve a level of profitability that matches the existing businesses and portfolio in the medium- to long-term



The next page is an image of the business portfolio we are aiming for. Existing brands increase slightly. Domestic store operations may decline slightly, but E-Commerce increases slightly. The major increases in both sales and profits are in overseas businesses, new brands, and digital businesses.

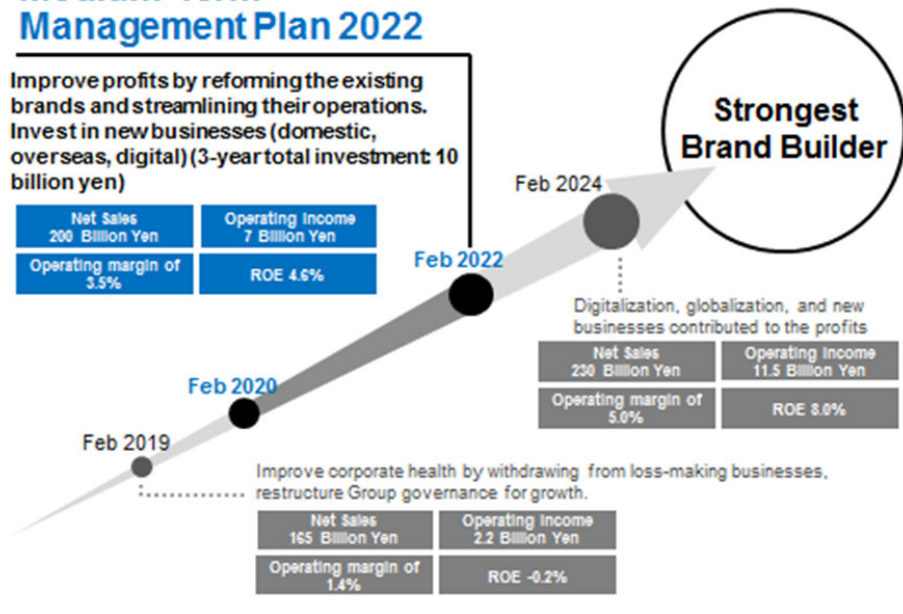
Two themes are how far we can steadily increase sales and profits to become a highly profitable company, and how we can create new products for the future. I believe it is irresponsible to expect all new brands to be successful and to make profit. Therefore, the major medium-term plan is to make new businesses a new pillar while increasing profits from existing brands.

## Medium-Term Management Goals

### Medium-Term Management Plan 2022

Improve profits by reforming the existing brands and streamlining their operations. Invest in new businesses (domestic, overseas, digital) (3-year total investment 10 billion yen)

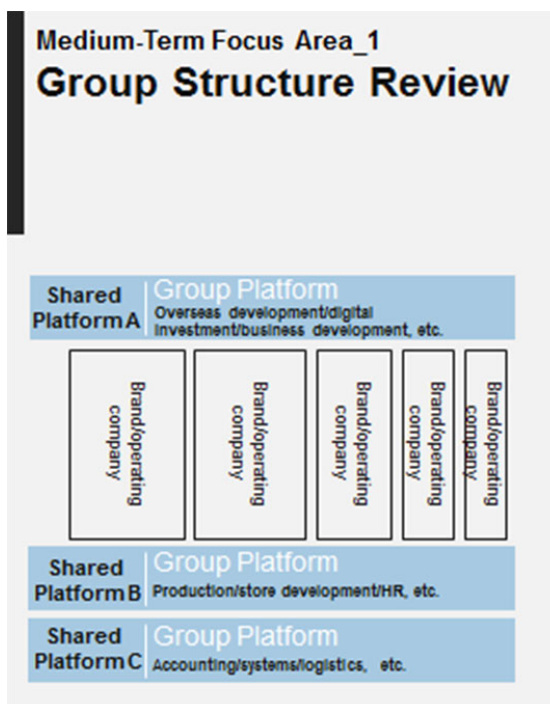
Net Sales 200 Billion Yen	Operating Income 7 Billion Yen
Operating margin of 3.5%	ROE 4.6%



The sixth page is a medium-term management goal that includes the numbers. The plan is for 2022 in three years. Sales of 200.0 billion yen, operating income of 7.0 billion yen, operating income margin of 3.5%, and ROE of 4.6%. Although it may seem conservative, we have repeatedly revised downward in the past and would like to stop this. Through the three years, we will focus on existing businesses.

I think that the current operating profit margin of 1.4% is too low, so the target is about 3.5%. It may not be a praised figure, but I would like to bring it in a little more. In the meantime, we will naturally plan to launch new businesses. It is stated that sales will be 230.0 billion yen and operating profit will be 11.5 billion yen in the next five years or so.

I would like to see the company become a company that can generate about 5% of this operating profit. Beginning with the goal of an operating income ratio of 3.5% over the next three years, our long-term goal is to achieve an operating income of 5% with a big change in the nature of our business, as well as an ROE of 8%.



### **Purpose**

- Develop a structure that takes advantage of the Group's scale while focusing on the brand uniqueness
- Review the high indirect cost structure and streamline the Group as a whole

### **Approach**

1. Build **shared platform functions across subsidiaries companies** to realize economies of scale
2. Streamline holdings and functional subsidiaries
3. Optimize Group structure, including integration among Group companies

First, as for the medium-term priority area one on page eight, we will review the Group structure. Only a part of the figures of this is included in the medium-term management plan. We only incorporate the shared platform C on the left. Systems,

However, the big concept is that we don't want to kill the brand's personality, so we will invest individually in product, store management, and marketing. But we'll invest as a whole, when if we should.

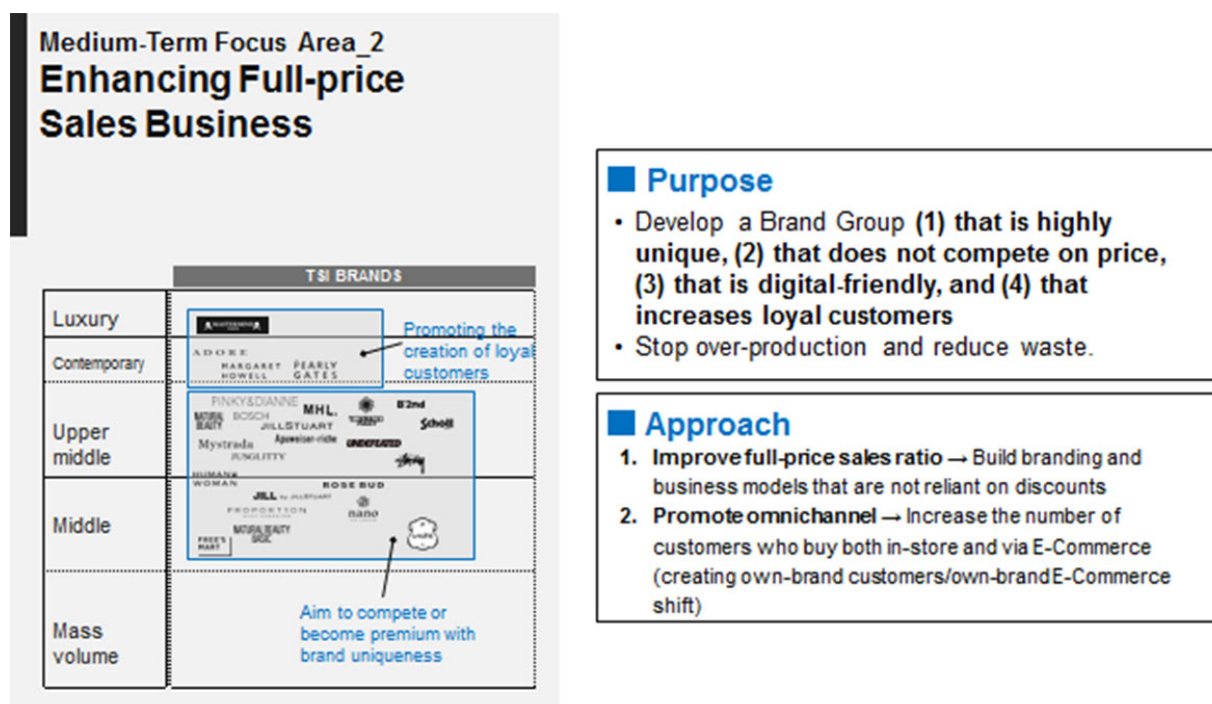
There are now twenty or so companies. The flat type is not an efficient one, so we would like to summarize it in a more meaningful mass. Therefore, while we will strive to improve efficiency, we are currently only expecting to achieve efficiency in the medium-term management plan, where it is clearly better.

Our strategy is to grow as a whole with multiple distinctive brands, rather than growing a business like a cassette with mega brands. So, I don't want to basically align all of the acquired brands with our methods, and we think we should not do it. I felt the same, as my brand was acquired by a large company in the past. Since I was free to do business, I could make my brand happy, but there is something to do and something not to do.

If we kill the personality of the brands, this strategy will be completely destroyed, so I think we should fairly carefully standardize and organize our company. It is not 100 or zero, so we can compromise, endure, and collaborate and tie together. It's not our case that if we aggressively standardize in a top-down manner, the business will be efficient. In that sense, I would like to take a little time to review this situation.

I would like to draw a picture of what will happen in the middle term carefully during the current fiscal year and take steps accordingly. The resulting growth in efficiency will be incorporated into the next fiscal year and beyond.

For example, in the previous fiscal year, I asked President Maekawa of SANEI bd CO.,LTD. to concurrently be responsible for the revitalization of the ROSE BUD. At first, it was assumed that the business would be operated within the platform of SANEI bd CO.,LTD, but Maekawa and I decided that there would be risks if it were forced to be incorporated into the SPA format because the buying business was a big select format while it was being carried out. As a result, we have been able to rebuild it properly, so I think we have to find one piece at a time carefully. I'm sorry, but I'd like you to spend a little time reviewing this structure. That is the first.



Page nine, priority area two, proper business. As we have already spoken of, distinctive brands can get off of being caught up in price competition. That means, they can be sold also in digital, or they have digital affinity. As it is important to increase the number of loyal customers properly, we will become a group of brands that meet these requirements.

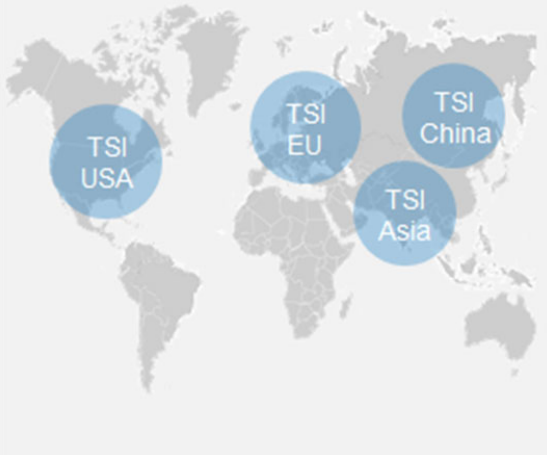
There is no magic formula. It's easy to say that we're raising the rate of proper sales, but we'll use all sorts of means to increase it. Of course, we don't make too many products. We also take on the risk of raising costs and raising the rate of proper sales. We are also working to increase premiums, and we are also working to increase loyal customers. We do everything.

In the current mid-term plan, we plan to raise the percentage of proper sales by five percentage points in about five years. However, we do not expect gross profit to remain unchanged. The reason for this is that we are trying to raise the cost of sales. Therefore, rather than rebounding the full amount of the increase in the percentage of proper sales to profits, we will reflect it in the cost of sales and make it a reality. This is the second most important KPI after profit that all brands increase this percentage of



proper sales. This is all the way around, from high-priced brands to reasonable-price brands that are broadly targeted, such as Nano Universe and NATURAL BEAUTY BASIC brands.

**Medium-Term Focus Area\_3**  
**Multinationalization**



A world map with four blue circular callouts indicating regional focus areas: TSI USA (North America), TSI EU (Europe), TSI China (East Asia), and TSI Asia (Southeast Asia).

**Purpose**

- Establish business models that earn foreign currency by targeting foreign customers and overseas markets

**Approach**

1. Expand our global brands in new countries. (MARGARET HOWELL/HUF/AVIREX/PEARLY GATES, etc.)
2. Accelerate business development in China (Apuweiser-riche/HUF/AVIREX, etc.)
3. New overseas expansion, new M&A
4. Strengthen management and support systems

On the next page, page 10, focus area three, the multinational corporation. This is just about 6% of our business overseas now. But I think that we will be a company that earns a significant portion from overseas. We will invest in businesses that have the potential to expand overseas.

First, we will expand our existing brand, Margaret Howell, into the U.S. during the current fiscal year. The preparatory team has already begun to move in New York, so we may be able to open a store in New York as soon as this year. As it depends on real estate, this is fluid yet.

Similarly, the rebranding of HUF, which we acquired last year, is proceeding in the U.S. and is now performing very well. We intend to expand this business into China and other countries.

Then, there is AVIREX, a military brand under the umbrella of UENO-SHOKAI CO.,LTD. We have already expanded it in conjunction with a local partner in China, which is very successful. But we intend to further expand this business. We also intend to expand into other countries.

Then, there is Pearly Gates, which is a golf brand operated by TSI GROUP AND SPORTS CO.,LTD. It received a favorable response at a U.S. exhibition in January this year, so we would like to expand one of their brands to the U.S. in earnest. Pearly Gates is now growing very well in Korea with partners, up to retail-based businesses of about 10.0 billion yen. There is little other than Japan and South Korea. We will bring this first to the United States and then to China in the long run.

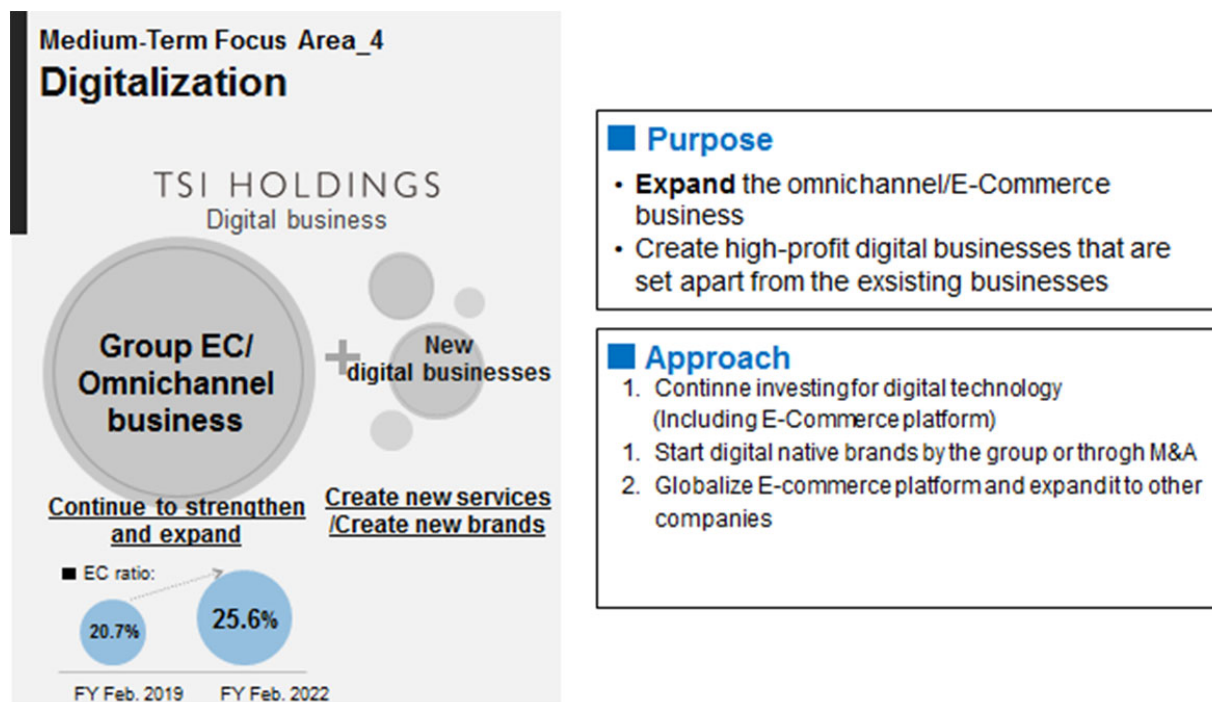
Now, we are developing our brand overseas.



In addition to what I mentioned earlier, we have opened a store in T-Mall under the name of Apuweiser-riche, a brand for women. We already have a local Shanghai office and will eventually open a real directly-managed store.

We are talking with several other overseas partners about operating our existing brands together, perhaps as a joint venture. I don't think it's easy for Japanese companies to go out and do business, so we are going to work with the local partner in some combination like a joint venture.

We will steadily expand our overseas business as far as possible, though some brands are suitable and others are not.



Medium-term priority area four-- this is the following page; becoming a digital enterprise. In the previous fiscal year, the e-commerce ratio exceeded 20%. In particular, we are focusing on increasing the use of our in-house e-commerce to create omni-channels.

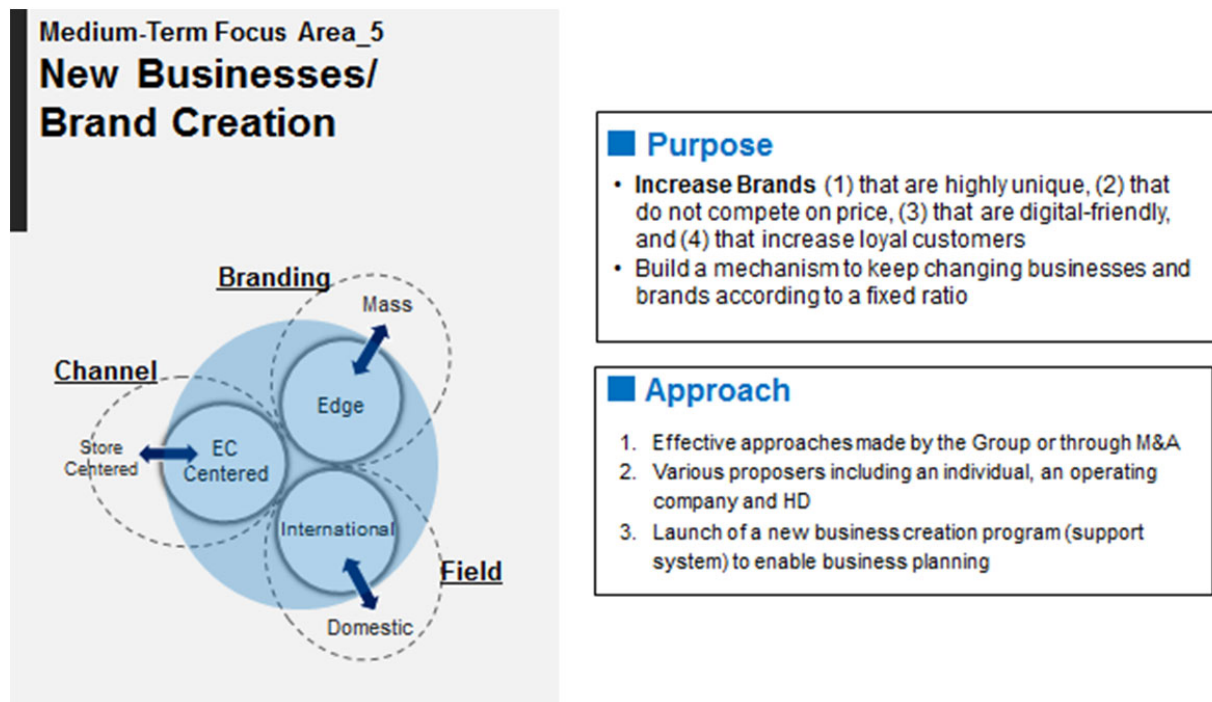
By the beginning of the summer of this fiscal year, we will have started a service app that allows stores to take products from other stores when they have no inventory, and not ask customers to come back again next week. They reserve EC inventory on the spot, settle it at the store, and send it directly to the customer's home. Today, Apuweiser-riche which is operated by ARPEGE CO.,LTD has introduced it ahead of others, but we are now preparing systems, etc., so that most of the brands will be able to do this.

we are transferring to omni-channel where customers do not lose money, anywhere they buy. This is one part. See the Group EC/Omni-Channel Business on the left page.

The rest is a new digital business. This is B to B, and we are now trying to do something like a point of contact when the Korean brands come out to Japan by joining the Korean-style Café 24, a Korean-style

fashion mall, with MIX.Tokyo, one of our group sites. We intend to do such overseas alliances using e-commerce platforms.

The rest is a digital native brand. Since the world is definitely moving in this direction, I think we will do this. To this end, we will proceed with M&A. This is a big area.



Medium-term priority area five, the next page-- new businesses/brand creation. This is in fact linked to overseas expansion and digitalization. Our policy is to invest in new businesses. We are working to strengthen our teams and discuss whether to launch new businesses in-house or through M & A.

As I mentioned earlier, new businesses have an affinity with digital and overseas markets, and we are able to do business on a proper basis. I believe that there is no other way than doing business on a proper basis.

We started new brand called "LE PHIL" in SANEI-INTERNATIONAL CO.,LTD.We are also making steady progress with this brand .

## Medium-Term Focus Area\_6

### CSR

#### ■ Purpose

1. Realize a sustainable society
2. Improve corporate value continuously

#### ■ Approach

1. Elimination of product disposal losses
2. Enhance diversity (regardless of gender and nationality)
3. Improve the corporate governance
4. Others (employment of people with disabilities, community involvement, etc.)

The next page is CSR. What we should do as a listed company is a matter of course. However, I believe that the most important thing we need to talk about in this context is the fact that we are making things in vain and carrying them to waste. I think it would be a mistake to stop this first. This is accompanied by the use of digital technology, and it is the worst case to produce and carry it in vain. I believe that abandoning these activities is the most efficient way of doing business and the greatest contribution to the environment.

Next, I would like to ask about diversity. As I mentioned earlier, most of our executives are Japanese men, so I would like to incorporate more women, LGBT, and foreigners. I would also like to see local citizens who serve as presidents of overseas companies participate in our management meetings.

In addition, we will continue to work on governance, including the enhancement of outside directors. I believe that a good external director will be able to oversee the company, including myself, and displace the president. Our target is such a governance. As in the past, we'll aggressively continue to hire people with disabilities .

## Medium-term business plan

		FY Ending Feb. 2019(Results) (Million Yen)	Composition Rate (%)	FY Ending Feb. 2020(Plan) (Million Yen)	Composition Rate (%)	FY Ending Feb. 2022(Plan) (Million Yen)	Composition Rate (%)	FY Ending Feb. 2024(Target) (Million Yen)	Composition Rate (%)
Net Sales	Existing businesses	166,009	-	178,000	-	184,000	-	185,680	-
	New businesses	-	-	-	-	16,000	-	44,380	-
	Total	166,009	100.0	178,000	100.0	200,000	100.0	230,000	100.0
Gross Profit	Existing businesses	87,093	-	97,570	-	102,500	-	104,580	-
	New businesses	-	-	-	-	9,300	-	25,120	-
	Total	87,093	52.8	97,570	54.8	111,800	55.9	129,700	56.4
Operating income	Existing businesses	2,290	-	3,400	-	6,140	-	7,120	-
	New businesses	-	-	-	-	860	-	4,380	-
	Total	2,290	1.4	3,400	1.9	7,000	3.5	11,500	5.0

On page 15, we wrote the first thing. Our goal is to achieve an operating margin of 3.5% in three years so that we will achieve an operating margin of 5% in the fiscal year ending February 2024. What I would like to say here is that there are two categories: existing and new. In the next three years, we will enrich our existing profitability.

The second column of operating profit below shows a forecast of 6.1 billion yen for existing businesses in the fiscal year ending February 2022. I don't know the contribution of new businesses to sales, but I don't think it's so big. Existing businesses will generate the majority of operating income in the three-year period. Therefore, one of our major missions is to ensure that we do this.

Now the plan for new business is 4.38 billion yen. I think it's going to go up and down. In the fifth year, however, we believe that we must reconfigure a significant portion of our business with new businesses, so we will continue to do this through three years. I would like to take this into account and first aim to achieve this operating income in three years.

We are doing accumulation and top-down. In the current fiscal year, the medium-term management plan calls for a firm increase in profits in existing businesses. This is all.