TSI HOLDINGS

TSI HOLDINGS CO., LTD.

Financial Results Briefing for the Fiscal Year Ended February 2019

April 11, 2019

Event Summary

[Company Name]	TSI HOLDINGS CO., LTD.
[Event Type]	Earnings Announcement
[Event Name]	Financial Results Briefing for the Fiscal Year Ended February 2019
[Fiscal Period]	FY2019 Annual
[Date]	April 11, 2019
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[Venue]	Aoyama Building 6F, Kita-Aoyama 1-2-3, Minato-ku, Tokyo 103-0027
[Venue Size]	
[Participants]	60
[Number of Speakers]	4

	Shinichi Uetadani	Chief Executive Officer
	Masaaki Oishi	Director/Executive Manager of Administrative
	Hidetaka Nakashima	General Manager of Finance & Accounting Dept./Administrative Headquarters
	Kohei Yamada	Manager Corporate Communications & Investor Relations Office/Administrative Headquarters

Presentation

Uetadani: I would like to explain the details of financial results for the fiscal year under review, the next fiscal year's budget, and the medium-term plan, rather than the details by brand.

Consolidated Financial Highlights -Profit and Loss-

Unit: Million Yen

	FY Ending Feb. 2018		FY Ending Feb. 2019					
	Results	Composition Rate (%)	Results	Composition Rate (%)	Y/Y Change	Y/Y (%)	Against Plan (Change)	Against Plan (%)
Net Sales	155,457	100.0	165,009	100.0	9,552	106.1	1,010	100.6
Gross Profit	84,297	54.2	87,093	52.8	2,795	103.3	-	-
SG&A Expenses	82,128	52.8	84,803	51.4	2,674	103.3	-	-
SG&A Expenses (excl. Goodwill Amortization, Depreciation and Amortization)	77,579	49.9	79,935	48.4	2,356	103.0	-	-
Goodwill Amortization	422	0.3	918	0.6	495	217.3	-	-
Depreciation and Amortization	4,126	2.7	3,948	2.4	-178	95.7	-	-
Operating Income	2,168	1.4	2,290	1.4	121	105.6	790	152.7
Ordinary Income	3,788	2.4	3,912	2.4	123	103.3	1,112	139.7
Extraordinary Income	3,521	2.3	365	0.2	-3,155	10.4	-	-
Extraordinary Loss	3,630	2.3	3,208	1.9	-422	88.4	-	-
Profit Before Taxes	3,679	2.4	1,069	0.6	-2,610	29.1	-	-
Profit Attributable to Owners of Parent	3,219	2.1	-203	-0.1	-3,423	-6.3	▲1,804	-
EBITDA ※	6,718	4.3	7,157	4.3	439	106.5	-	-

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

*[illegible]

[illegible]

The second page is an overview of the previous fiscal year. Sales were 106.1% and gross profit margin was 103%. SG&A expenses were held down, and operating income was 105.6% compared to the previous year. However, the Company incurred extraordinary losses, which resulted in a negative net income.

As a whole, gross profit does not seem to be growing as much as sales. In fact, the biggest reason for the decline in gross profit margin was our Chinese subsidiary, Tsubomi, which was agreed to be sold yesterday. I hope you will understand that the gross profit margin from continuing operations in our core business is not large.

Brands Overview

Unit:Million Yen

	FY Ending Feb. 2018			FY Ending Feb. 2019			Y/Y		
	Sales	Composition Rate (%)	Gross Profit Ratio (%)	Sales	Composition Rate (%)	Gross Profit Ratio (%)	Change	Sales (%)	Gross Profit Ratio (pt)
1. nano・universe	26,030	16.7	50.7	28,349	17.2	47.1	+2,319	108.9	-3.6
2. NATURAL BEAUTY BASIC	16,043	10.3	58.2	15,583	9.4	57.7	-460	97.1	-0.5
3. MARGARET HOWELL	14,258	9.2	58.5	14,361	8.7	58.4	+103	100.7	-0.1
4. PEARLY GATES	11,838	7.6	50.3	12,173	7.4	51.0	+335	102.8	+0.7
5. ROSE BUD	7,531	4.8	45.1	6,869	4.2	43.7	-662	91.2	-1.4
6. STUSSY ※1	6,612	4.3	69.0	5,607	3.4	69.2	-1,005	84.8	+0.2
7. HUF ※2	434	0.3	66.4	5,159	3.1	47.9	+4,725	1,186.1	-18.5
8. HUMAN WOMAN	4,754	3.1	54.7	4,849	2.9	55.8	+95	102.0	+1.0
9. PROPORTION BODY DRESSING	4,541	2.9	55.7	4,449	2.7	55.2	-92	98.0	-0.5
10. JILL by JILLSTUART	4,331	2.8	62.6	4,342	2.6	61.0	+11	100.3	-1.6
TOP10	96,277	62.0	56.7	101,746	61.7	53.2	+5,469	105.6	-1.5
Other Brands	53,586	34.5	53.3	61,326	37.2	52.4	+7,740	114.4	-0.9
Continuing Brands	149,864	96.5	54.2	163,072	98.8	52.9	+13,108	108.7	-1.3
Closed Brands	5,493	3.5	55.8	1,936	1.2	43.8	-3,557	35.3	-12.0
TOTAL	155,357	100.0	54.2	165,009	100.0	52.8	+9,552	106.1	-1.4

*1 Figures of HUF were included as a part of STUSSY in the past as the impact was negligible.
From this term on, they are separately accounted due to HUF Holdings, LLC's status change as a consolidated subsidiary.
*2 The figures were for domestic only in the previous term, but in the current term,
they are consolidated figures for domestic and overseas operations combined after eliminating intra-company transactions.

The overview by brand on the third page is unchanged from that of the third quarter.

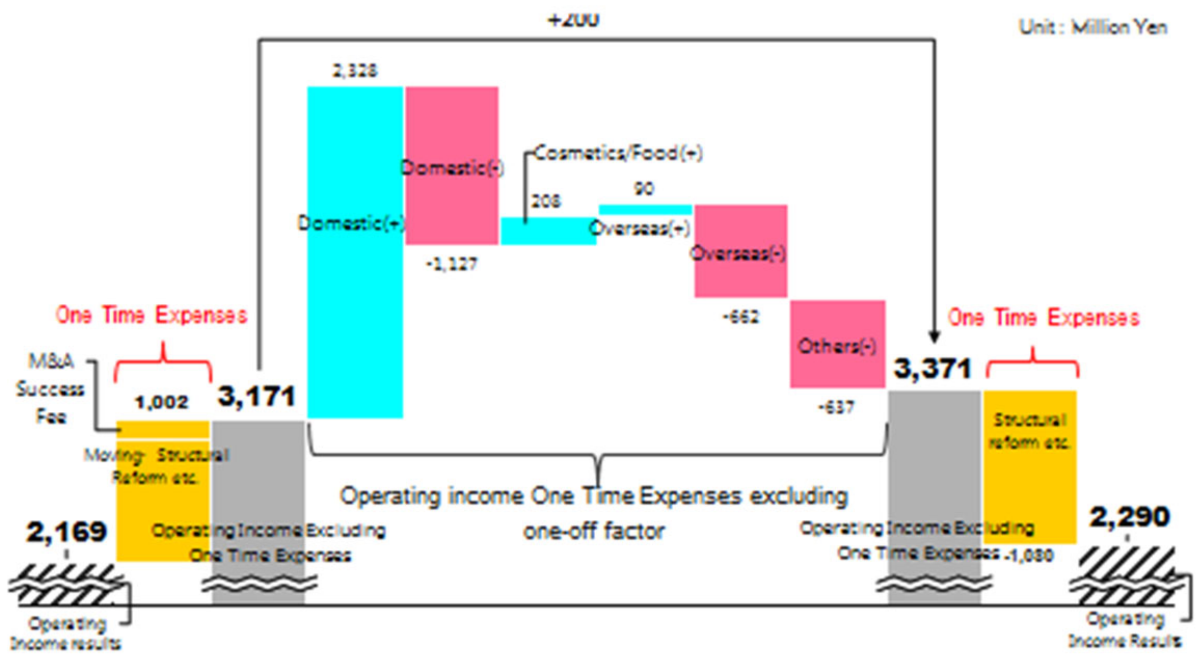
In January, we assumed that the impact of the fairly warm winter would be even worse, and we made a strict revision. However, the reason of this increase in operating income was that the existing businesses were able to generate adequate profits.

For HUF, only retail sales in Japan were recorded in the previous fiscal year, but the gross profit margin appears to be declining in the current fiscal year due to the recording of wholesale sales in the U.S. in the current fiscal year as a result of mergers and acquisitions.

There is no particular concern about this top 10 brand. While both sales and gross profit of our mainstay Natural Beauty Basic are declining, as explained at the time of the third quarter, the cause is clear, so we are taking measures and the performance has returned to positive territory since March of this fiscal year. This is not a business that is growing rapidly, but I believe it is safe for you to understand that this business will support our profits for a while.

Operating Profit Y/Y

■ Operating profit with the same standard comparison, excluding the one time factors in the previous and current periods increased by 218M from 3,171M to 3,371M.



The following page analyzes operating income excluding one-time factors.

Operating income increased, but it is not a praiseworthy amount or rate of operating profit, so I do not intend to say that this was a good result. Although we have not experienced any deterioration, we do not believe that our performance has been praiseworthy, and we intend to manage our business from this fiscal year onwards based on that assumption.

The next page is a summary of the previous year. This is the foundation of the medium-term management plan that I will explain later.

The warm winter, a typhoon, and other issues such as ZOZOARIGATO, where the platformer takes the initiative on issuing coupons-- there were such problems, but this is not a special factor for the fiscal year under review. But a warm winter will come about once every two years, and the summer will cool. The platformer desires to attract customers on its own, so I think it will be inevitable to be involved in such problems.

So, we're not going to get on a sale, but we think that the business on the premise of a sale is reaching its limits. Again, there is a limit to the model of making a lot of products to attract customers and selling them. As a result, customers are now aware of the fact that those who bought in the proper season are losing money. If we sell products made at low costs at prices that we can make a business even in a sale. Therefore, we will consider our medium-term management plan based on the assumption that this business model is limited.

Among us, the brands that worked did not matter whether the platformer was going to hold a sale, but they did business properly. Margaret Howell, Adore, Human Women, Pearly Gates, relatively high-priced products, and even low-priced products that can be sold on a proper basis, such as the Nishikawa Down of Nano Universe, are doing good business, even though the winter is warm or other brands are having sales, and the companies with these brands are making good profits. We have to change to such a business. This is necessary for us who take a strategy of developing the personality of brands.

Partly relating to that, one of our businesses that performed poorly this fiscal year is the department store brand Natural Beauty and the fashion building brand Natural Beauty Basic. Both of them have been deemed to have kept down costs in order to secure gross profit. Although the cost of goods sold has not dropped dramatically, the cost of goods sold has been kept down due to the fear of raising the price of goods sold despite the rise in the cost of goods sold. As a result, the sales rate of proper sales declined. So, there was nothing good for gross profit.

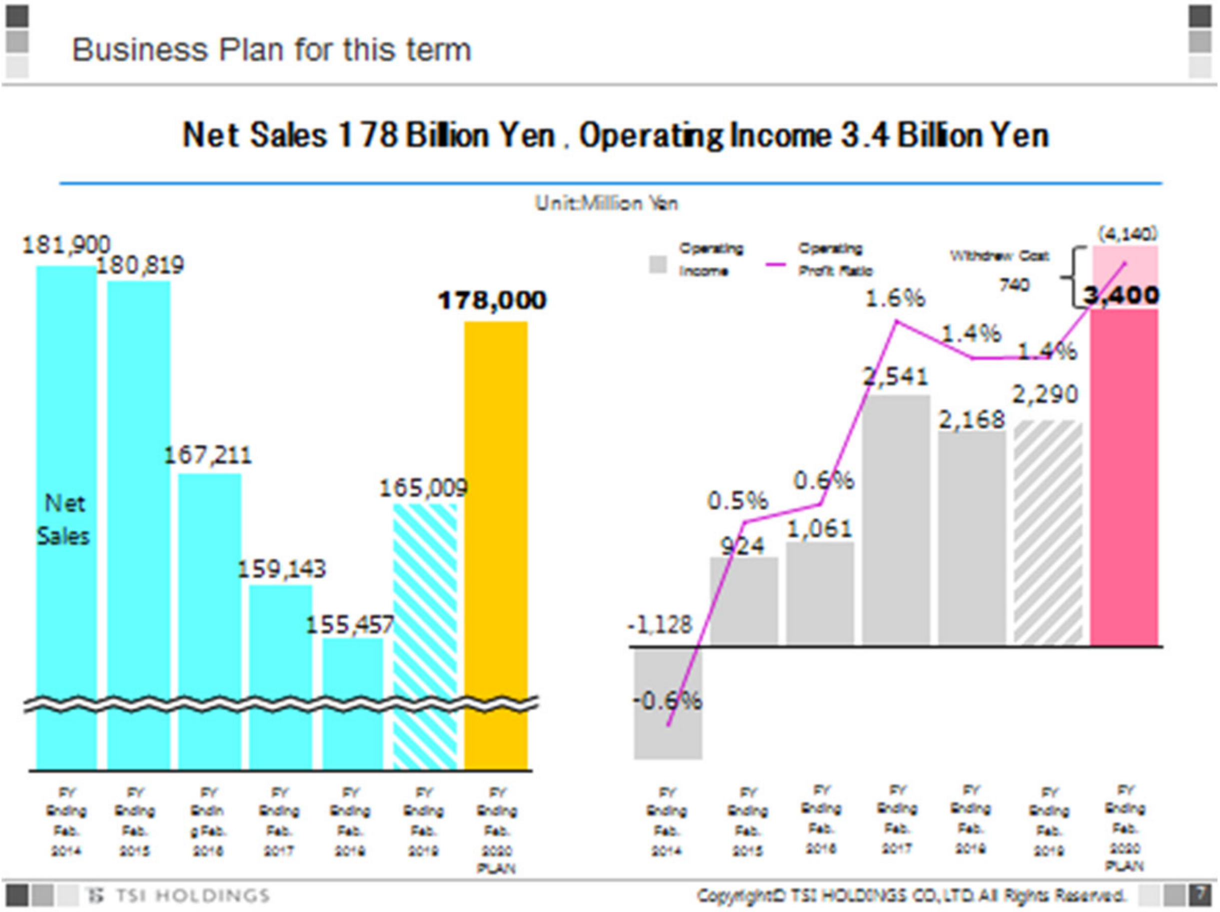
On the other hand, brands that we raised their costs. Representative is Adore, followed by Nano Universe. The latter is not a high brand in terms of price, but it is an original product. We increased the cost of original products of our proper shops. At the same time, the percentage of proper sales increased, resulting in a gross profit. Therefore, I believe that there is a limit to conducting business by lowering costs. Under the medium-term management plan, we will raise the cost-to-sales ratio and increase the percentage of proper sales.

Third, the brands that we struggled with this time are SANEI bd CO.,LTD. in particular, and ARPEGE CO.,LTD. Of course, the two companies are naturally profitable, but they are characterized by the so-called Ellengans and Feminine brands. So far, this taste brand has a high composition ratio, which performs sometimes good, but sometimes bad, depending on the trend. Of course, we are adjusting tastes within our brand, but we reaffirm the importance of diversifying our portfolio as a multi-brand business group.

In the previous fiscal year, UENO-SHOKAI CO.,LTD., which became a consolidated subsidiary in the fourth quarter of the fiscal year under review, joined the Group. This is a brand with a completely different taste, centered on brands for men. I understand that the existence of these things has greatly improved the overall balance. So, as long as we do business under a multi-brand strategy, we must diversify our portfolio. Our next aspiration is to measure diversification in various ways, not just a taste.

Strong brands with a strong retail outlook, regardless of a mild winter or a trend-- almost all our brands are directly managed stores, so every store is doing its best. But I realized that a brand with a culture that all employees, including executives, are self-made, has the power to bounce back even if there are fluctuations in the external environment.

Nano Universe, UNDEFEATED, and the brands which belong to UENO-SHOKAI CO.,LTD.. These brands were very strong. The fact that they have strong points of contact with customers also means that they do not place excessive reliance on the platformer early mentioned. There are many locations that are not prime. Nevertheless, these brands are strong enough to create customers on their own and are able to conduct a stable business there. I think it is important for us to create customers and maintains them in line with the idea of properly establishing the personality of our brands.



Please refer to page seven for the budget for the next fiscal year. The left is sales, and the right is operating income. The right-hand side is the plan for the current fiscal year, with sales of 178.0 billion yen. Ueno Shokai will be fully consolidated as a major factor behind the increase in sales. The words "increase in revenue and profit" sound good, but we will not get hung up on the increase in revenue. As long as we're making our customers and doing our business with our proper price, we're not interested in increasing the size in order to make apparent sales. So, you can see that our newly added brand had a major impact on our revenue growth.

The operating income target is 3.4 billion yen. This is a record-high profit, and operating profit will improve significantly from this fiscal year. In fact, 4.14 billion yen, written above the thin pink bar, is the operating income we are aiming for.

We intend to achieve this figure, but in fact, since I was appointed at the end of May last year, I have set a goal for structural planning, the deficit eradication, in the current fiscal year. As some of the deficit took place in the current fiscal year, such as with Tsubomi announced yesterday, the entire process was not completed in the previous fiscal year. But I understand that we have processed almost all of the big businesses. All businesses that could be recorded in the previous year were recorded without postponement.

However, there are a number of deficits that will occur in the current fiscal year, and three big brands are going to record a deficit. This 740 million yen is a loss on withdrawal. We think this will happen in the first half of the fiscal year, so we have incorporated it into the plan as estimated.

We would no longer want to revise the forecast downward, so we would like to make an official plan after deducting 740 million yen by incorporating what we could into the forecast for the previous fiscal year. Nevertheless, our actual target is 4.1 billion yen in the current fiscal year.

Profit and loss plan FY Ending Feb. 2020

- We plan to achieve net sales of 178 billion Yen (107.9% Y/Y) and operating income of 3.4 billion Yen (148.7% Y/Y)

Unit:Million Yen

	1st Half			2nd Half			FY		
	FY Ending Feb. 2019	FY Ending Feb. 2020	Y/Y	FY Ending Feb. 2019	FY Ending Feb. 2020	Y/Y	FY Ending Feb. 2019	FY Ending Feb. 2020	Y/Y
Net Sales	76,194	84,000	111.7	89,815	94,000	104.7	165,009	178,000	107.9
Operating Income	-186	-600	—	2,477	4,000	161.5	2,290	3,400	148.4
Ordinary Income	713	100	14.0	3,198	4,900	153.2	3,912	5,000	127.8
Profit Attributable to Owners of Parent	-362	2,300	—	158	1,700	1074.0	-204	4,000	—

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Page 8 shows the breakdown for the first and second half of this year. As I mentioned earlier, we expect that the large portion of the loss on withdrawal will be concentrated in the first half of the fiscal year. Operating income appears to be depressed in the first half. This is due to the withdrawal of Laline Hawaii and the withdrawal of Tsubomi, which was announced yesterday. We plan to dispose of another brand. It is true that we originally earn in the second half of the fiscal year, but the breakdown is as mentioned.

Net Sales Per Channel

	FY Ending Feb. 2018		FY Ending Feb. 2019			
	Results (Million yen)	Composition Rate (%)	Results (Million yen)	Y/Y (%)	Composition Rate (%)	Composition Rate Y/Y Change
Department Stores	29,156	18.8	25,202	86.4	15.3	-3.5pt
Commercial Facilities(*1)	76,581	49.3	80,203	104.7	48.6	-0.7pt
E-Commerce	28,932	18.6	34,138	118.0	20.7	+2.1pt
Overseas	6,741	4.3	10,367	153.8	6.3	+1.9pt
Others(*2)	14,045	9.0	15,097	107.5	9.1	+0.1pt
TOTAL	155,457	100.0	165,009	106.1	100.0	-

*1 Fashion buildings, shopping centers, railroad station 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.

Regarding E-Commerce on page 12, the EC plan was set at 20% in the previous fiscal year. And it was 20.7% as planned. In addition, we are achieving this goal by increasing the percentage of our own EC. EC is growing as planned.