



TSI HOLDINGS

TSI HOLDINGS CO., LTD.

1Q Financial Results Briefing for the Fiscal Year Ended February
2020

July 4, 2019

Event Summary

[Company Name]	TSI HOLDINGS CO., LTD.	
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[Venue]	Aoyama Building, 6F 1-2-3 Kita-Aoyama, Minato-ku, Tokyo, 107-0061	
[Venue Size]	100 m ²	
[Participants]	70	
[Number of Speakers]	4	
	Shinichi Uetadani	President and CEO
	Masaaki Oishi	Director who has administrative headquarter
	in charge	
	Mitsuru Naito	Manager of Finance and Accounting Division
	Kohei Yamada	Manager Corporate Communications & Investor Relations Office/Administrative Headquarters
[Analyst Names]*	Kuni Kanamori	SMBC Nikko Securities Inc.

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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Question & Answer

Moderator: Thank you very much. We just announced our medium-term plan 3 months ago, so we explained that this time we are focusing on our performance over the past 3 months. I would also like to answer questions about the progress of the medium-term management plan. Please ask any questions you have.

Kitagawa: Kitagawa of the Senken Shinbun. Thank you very much.

Having a global presence is a priority investment area. What concrete plans are there in this area?

Uetadani: There are several things. One is considering the development of HUF in China. However, as a result of selling the Beijing Tsubomi subsidiary, I felt that if we wanted to do business in China, we would have to form a firm partnership. We are currently in discussions with several potential partners. We are currently in discussions with which partners will be deployed and in which area. So, this has not been completed yet. No figures are available, but this is one area where we are proceeding.

Then, as I said before, MARGARET HOWELL. This has gone from the United Kingdom to the United States, and has been wholesale-only. We're going to open a directly managed store and brand it in the U.S.A. and expand it a little more than that in the U.S.A. The British team has been visiting New York, looking for a potential store for a long time. However, land prices have soared too high, and we are carefully looking for locations for new store openings.

Therefore, HUF and MARGARET HOWELL, both of which are based in other countries, are steadily developing their businesses, as I mentioned last time.

In addition, there's the Company's Apuweiser-riche brand, which was launched last year mainly through e-commerce. It's been rolling out in T-Mall. So, we're researching the Chinese market a little bit now. We have some sales here. We are still moving closer to test marketing. We're looking at a variety of things, such as size.

In addition, there are several other potential partner companies that we have, particularly women's brands or select businesses in China. We have been discussing this issue since last year. I don't want to fail, so I'm looking for a good partner. When I come to talk about it, I must go to the local area to see if I can do business with their factories, stores, and management styles, to see if the elements to do business are there. Can they take care of the brand? There are some areas where we have expanded the number of stores and they slashed the prices. I am working on these issues.

However, as you know, the Chinese market is now extremely cold. Some of them are now a bit cautious. I am doing this carefully. We are also considering brands other than HUF and MARGARET HOWELL, and are advancing discussions with candidates for concrete partners.

Another is PEARLY GATES. This is our top golf brand. This business is already underway in South Korea, and is estimated to be worth around 10 billion yen on a local retail basis. It's a good scale. We're working with a partner company, so Korea is very successful. In order to bring this to the U.S., we have begun to participate in exhibitions. This will start at the beginning of this year.

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There are other ways of entering a new market. We're considering several options, with a plan to buy a company with a local distribution network, or find an agent, and try to work in partnership with that agent. I don't think it's easy to do this by ourselves. Both of these proposals are now under consideration.

Largely speaking, this is the state of affairs in overseas markets.

Moderator: Thank you very much. So, if you have any other questions, please.

Kanamori: SMBC Nikko Securities Co., Ltd. My name is Kanamori. I'd like to ask you three points, basically, about the numbers.

First of all, is this better or worse than your projections for the first quarter? Your company sees big movements in profits in the first and second quarters. Please tell me first about this.

The second question concerns the inventory. I think it is growing. Isn't this bad for this second quarter? Please confirm the background and details about this increase in inventory.

Third, what is your current status of SG&A expenses? I can't see the actual state of selling, general and administrative expenses. Excluding special factors, additions, and departures, the growth in SG&A expenses is currently low relative to sales growth. Why is this? Or I think that the focus of growth is moving. Is the Company entering a stage where the growth of SG&A expenses will accompany the growth in sales?

Uetadani: The results are pretty much as we expected. Naturally, we were expecting the contribution of Ueno Shokai, and we were expecting gross profit to improve due to the absence of business withdrawals.

In contrast, the remaining businesses are not as wonderful, as I mentioned earlier. I feel that we are only just where we want to be in our current fiscal year's sales and profit growth plans. Almost on-track.

As you pointed out, We can know about performance at the end of the second quarter because the inventory is accumulated by valuation loss. As for the outlook up to the second quarter, I think we'll be able to meet our expectations on a roughly profit basis at the moment.

The sale of Beijing Tsubomi has sold as planned. Until this was done, the cash outflow would have continued to accumulate a deficit all the time. There's no big bomb there now. The store situation in June seemed to be quite straightforward. So whether we can achieve our projections for the second quarter or not depends on whether we will be able to properly switch products on sale basis to ones on a proper basis in July and August. So far, I think in that sense, whether it's good or bad, it is on-track. It looks very good in comparison with last year, but that doesn't mean I am overly optimistic.

Then there's the inventory. Actually, as I mentioned earlier, the total inventory was about 112% of last year.

Moderator: Consolidated data is around 119%.

Uetadani: Excuse me. It is growing a little. Most of it is nano-universe. The fact is that the women's inventory in nano-universe has increased considerably.

As mentioned earlier, there is a tendency for inventory to be relatively large, because when you step on the gas a bit, the inventory suddenly jumps a lot. In the case of nano-universe, this is particularly good. As I said, summer inventory is the main item. So far, I'm looking at how well we can move stock.

In the case of nano-universe, it's heavily weighted towards the so-called outlet segment. We say that the entire brand and the entire group are pro and premium. Nano-universe is a relatively mass-market brand. In

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that sense, the sales channel should be quite typical. Of course, we don't allow any predictions at all. I'm still thinking about reducing the inventory.

TSI Groove & Sports, which has PEARLY GATES and other assets, has more in inventory than expected. We're expecting growth in PEARLY GATES, so the Company has a large inventory to support that. Their sales are good. Inventory is not as large as nano-universe, but it is somewhat increased.

So then, what caused the increase? Jack, a street-wear company that is developing STUSSY and HUF, has launched its own shoe brand, Herschel, resulting in a slight increase in its inventory. This is an unavoidable situation because it is a new business.

The big thing is nano-universe, and women's summer products. I hope we can reduce the inventory.

Finally, SG&A expenses.

Oishi: SG&A expenses are roughly in line with expectations. I don't feel that they are affected by the withdrawn companies or the emerging companies.

For most of the year, the ratio of SG&A expenses to sales has been 52% to 53%. The ratio in the first quarter will be very high. This is currently 52.9%, so I believe that this will decline a little further.

For this reason, we have unified the rules for the use of selling, general and administrative expenses, particularly expenses, throughout the Company. For example, for Ueno Shokai, which has newly entered the group, the economies of scale discount is obtained by unifying the insurance costs and so-called infrastructure costs, vendors, and business partners. This is the case. I believe that there will be no major changes in the Company.

Uetadani: Excluding Ueno Shokai, SG&A expenses were 95.6% of the previous year's level, so there was no increase in SG&A expenses.

Excluding Ueno Shokai and excluding withdrawn businesses, gross profit is growing, relative to sales. Excluding Ueno Shokai, selling, general and administrative expenses are declining. SG&A expenses do not swell in proportion, except for the impact of the withdrawn businesses.

Moderator: Current figures include not only Ueno Shokai, but also Beijing Tsubomi in the previous year, and comparing organically, are 95.6% of last year's figures.

So, if you have any other questions, please.

Hanai: Mr. Hanai, Nihon Keizai Shinbun. Thank you very much.

Please tell us about the number of stores. Domestically, the number of stores opened and closed is higher than the number of stores opened. Could you tell us the brands that opened and closed many stores, and the brands that closed many stores? How does this compare to overseas businesses?

I believe you explained about HUF. Is that the main brand? Could you tell me about that?

Moderator: I will answer this question. The Company opened 19 stores and closed 7 stores in Japan. Changes are shown in the table in the handout.

HUF saw the most activity in this fiscal year. We have opened three HUF and Herschel stores in the last three months and three UNDEFEATED stores. I feel that there will be one or two more stores opened at a time. We will not open 10 stores, at once for a single brand as was done before.

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Excluding the impact of the transfer of 50 stores to Beijing Tsubomi, March to May is typically when new stores open, and few stores close, so I hope you will appreciate this.

Moderator: I would like to conclude the financial results briefing. Thank you very much today.

Uetadani: Thank you very much. [END]

Document Notes

1. *Portions of the document where the audio is unclear are marked as follows: [Inaudible].*
2. *This document has been translated by SCRIPTS Asia.*

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