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.
[Event Type]	Earnings Announcement
[Event Name]	1Q Financial Results Briefing for the Fiscal Year Ended February 2020
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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.

Presentation

Moderator: Good morning. I would like to begin the financial results briefing for the first quarter announced yesterday.

First, Mr. Uetadani, President and Representative Director, will present the material in the handouts, and then you can ask questions. I would like to answer your questions with the help of Mr.Oishi,Director who has administrative headquarter in charge.

Please proceed, President.

Uetadani: Good morning. The overview will be explained as per this handout. If you have any detailed questions, such as questions about individual brands, please wait until the question-and-answer session.

Consolidated Financial Highlights -Profit and Loss-

Unit:Million Yen

	Q1ST 2019 Ending Feb.		Q1ST 2020 Ending Feb.			
	Results	Composition Rate (%)	Results	Composition Rate (%)	Y/Y Change	Y/Y (%)
Net Sales	39,193	100.0	42,870	100.0	3,677	109.4
Gross Profit	22,199	56.6	24,611	57.4	2,412	110.9
SG&A Expenses	21,087	53.8	22,698	52.9	1,611	107.6
SG&A Expenses(excl. Goodwill Amortization, Depreciation and Amortization)	19,895	50.8	21,358	49.8	1,462	107.4
Goodwill Amortization	198	0.5	293	0.7	94	147.8
Depreciation and Amortization	993	2.5	1,046	2.4	53	105.4
Operating Income	1,111	2.8	1,913	4.5	801	172.1
Ordinary Income	1,480	3.8	2,182	5.1	702	147.4
Extraordinary Income	109	0.3	1,294	3.0	1,185	1185.1
Extraordinary Loss	280	0.7	39	0.1	-240	14.2
Profit Before Taxes	1,309	3.3	3,437	8.0	2,128	262.6
Profit Attributable to Owners of Parent	578	1.5	2,473	5.8	1,894	427.3
EBITDA ※	2,303	5.9	3,253	7.6	949	141.2

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

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This is a two-page summary of overall profit and loss. The figures on the right-hand side of the table are a comparison with last year. Sales are up 9.4% and gross profit is up 10.9%. Operating income rose 72%. Recurring profit rose 47%. Net income for the quarter was 427% of last year's figure. This is a significant increase in both sales and profits.

As stated in the Nihon Keizai Shinbun this morning, Ueno Shokai has made a major contribution to consolidation this fiscal year. Thanks to these efforts, sales have risen. If we exclude sales from Ueno Shokai, sales declined by 3%, but with a 69% increase in operating profit. Ueno Shokai is also strong in the outerwear business, which is relatively weighted toward the second half of the fiscal year. Even excluding Ueno Shokai, profits have increased significantly.

I'd like to add something about this page. The number of the increase of amortization of goodwill in mid-term SG&A expenses mainly causes goodwill amortization of Ueno Shokai.

Moving on to extraordinary income. There is a big increase here. This includes the Callaway Apparel golf deal that we announced the other day. After reaching an agreement with Callaway Golf Company, we were able to develop the joint venture sufficiently. We sold the joint venture and generated a gain of about 1 billion yen on that sale.

Brands Overview

Unit:Million Yen

	Q1ST 2019 Ending Feb.			Q1ST 2020 Ending Feb.			Y/Y	
	Sales	Composition Rate (%)	Gross Profit Ratio (%)	Sales	Composition Rate (%)	Gross Profit Ratio (%)	Sales (%)	Gross Profit Ratio (pt)
1. nano・universe	5,761	14.7	54.2	6,136	14.3	51.3	106.5	-2.9
2. NATURAL BEAUTY BASIC	4,567	11.7	61.1	4,486	10.5	63.4	98.2	+2.3
3. MARGARET HOWELL	3,496	8.9	61.8	3,459	8.1	62.1	98.9	+0.4
4. PEARLY GATES	3,072	7.8	50.9	3,255	7.6	55.3	106.0	+4.4
5. AVIREX ※1	-	-	-	1,952	4.6	63.6	-	-
6. ROSE BUD	1,832	4.7	50.7	1,678	3.9	54.4	91.6	+3.7
7. STUSSY	1,343	3.4	69.0	1,285	3.0	69.6	95.7	+0.6
8. HUMAN WOMAN	1,319	3.4	60.6	1,275	3.0	59.1	96.7	-1.5
9. UNDEFEATED	845	2.2	39.9	1,130	2.6	44.6	133.7	+4.7
10. HUF	1,138	2.9	49.1	1,082	2.5	50.6	95.1	+1.5
TOP10	23,377	59.6	56.4	25,742	60.0	57.5	110.1	+1.1
Other Brands	13,587	34.7	59.5	17,031	39.7	57.6	125.3	-2.0
Continuing Brands	36,964	94.3	57.6	42,774	99.8	57.5	115.7	-0.1
Closed Brands	2,228	5.7	41.2	95	0.2	11.2	4.3	-30.1
TOTAL	39,193	100.0	56.6	42,870	100.0	57.4	109.4	+0.8

*1 As we acquired the stock of UENO-SHOKAI Co., LTD. on October 26, 2018, we regarded the deemed acquisition date on November 30, 2018.
Therefore we only count UENO-SHOUKAI CO., LTD on this fiscal year.

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The above is an overview of overall profit and loss.

I'll present this by brand. There are also quite a few brands and businesses that have been withdrawn, and I'll explain a little about them separately.

In order of sales, highest first. Our top 10 is from nano·universe in first to HUF in 10th. The biggest mover from last time is AVIREX, in fifth. It's Ueno Shokai's largest brand. It's a military-style brand, but it's included here.

In the top 10 overall, sales are up about 10%. The gross profit margin improved by 1.1 percentage points. Sales grew and gross profit grew further. The top 10 brands, as well as other brands, are included in this total. Despite sales growth, the gross profit margin is declining.

In addition to AVIREX, the Ueno Shokai military brand I mentioned, about half of our business has a so-called select shop format. In these specialty shops, we buy about 70% of the products from around the world and sell them after merchandising them properly. As procurement is of course the main focus, structurally the gross profit will not rise that high.

As a result, the gross profit margin of these other brands appears to be declining, and the majority of this is due to the addition of Ueno Shokai's select store format. This business also contributed to net sales and profits, so I think it is a very good business. It can be tough to reach conclusions from the gross profit figure in this kind of business. We are not particularly concerned about this, because there haven't been any unusual events causing a decline in gross profit.

Under this system, there are continuing brands and closed brands. Continuing brands are those that continue from the previous fiscal year to the current fiscal year. As I announced, the big news in closed brands was Tsubomi, which suffered a large deficit in China last year. This was successfully sold to a Chinese company. In addition, two brands that were withdrawn from the former Tokyo Style were excluded from the list. The remaining brands saw sales increase by 15.7%, and the gross margin seems to be declining slightly. I don't think this will have a significant impact on our business.

Outside the top 10, total sales increased 9.4% and gross margin improved 0.8 percentage points. I believe that the first quarter has been on track, including the gross profit situation.

As an outline of the top 10 brands, gross profit has improved in general. Of these, the two brands with negative gross profit were nano·universe and the eighth-place HUMAN WOMAN. As for nano·universe, both sales and profits have been rising, so there is a clear profit contribution. One issue is that a portion of a cost that had to be recorded in the previous fiscal year has been incorporated into the current fiscal year, which has had an impact of approximately 1 percentage point.

In addition, there has been some increase in inventory in nano·universe. Our method of accounting is to write down inventory in the first quarter and recover the cost when the second quarter's sales have been properly digested. Inventory write-downs have increased slightly.

Neither sales nor absolute gross profit is growing. The main reason for this was a small increase in inventory of women's clothes, which grew very fast in the second half of last year.

Last year – and this wasn't limited to nano·universe – the weather suddenly turned hot, and only summer items sold. This left a big stock of spring items that we struggled to deal with. This year is the opposite. Spring items are selling very well. However, because the temperature has not risen, summer inventory has remained somewhat. That has led to an increase in inventory.

The current situation isn't one where there are a lot of so-called spring coats still in the inventory and we're not sure what to do with them. The current inventory is summer clothes. I think the important thing going forward will be timing: selling the products in-season. It's difficult to predict, but I think there will be a cool summer. Other factors are at play too. I think we'll have to stay sharp in the second quarter, as summer products are the main component of inventory. Currently, there are no serious concerns.

And while sales from the eighth-place HUMAN WOMAN have fallen by a few percentage points and the gross profit margin has declined slightly, we also appreciate that the current situation is extremely sound. Last year, we celebrated the brand's 20th anniversary, and both sales and profits grew significantly, contributing to our excellent results. Seen in that context, this year's results are understandable. Some markers have fallen slightly compared to last year's good results, but this is not a situation to worry about. We are selling well, including our regional stores, so I think there is no particular problem.

In other brands, things were a bit tougher than last year for second-place NATURAL BEAUTY BASIC. We have focused on enhancing the MD system to sell products that can sell well rather than on raw sales. Despite a slight decline in sales, gross profit is stable and inventory has been kept low. If we look at the inventory level, it is around 70% of the level of the previous year, so I think there is no particular problem. Compared to last year, sales are 98%, but gross profit is 102% and operating profit is 108%. I understand that this has almost recovered.

In addition, although sales in MARGARET HOWELL appear to be declining slightly, sales in the first quarter declined slightly, due to halting orders from some of our suppliers. During the first half of the fiscal year, I think the balance sheet will remain healthy, and performance will compare well with last year.

Fourth-place PEARLY GATES is selling very well this year, on its 30th anniversary. Our traditional products are selling well, and both unit prices and customer numbers are rising.

AVIREX was established as a brand this year. All employees, including the President, have been able to serve customers on the sales floor at any time. In that sense, it is a company that is very strong in the field. We now see this as a stable business.

Last year, ROSE BUD was undergoing significant structural reforms, but the reason for the decline is that we closed unprofitable stores and relocated them. The current situation is that we are steadily recovering. The gross profit margin improved 3.7 percentage points, and current inventory is 68% of what it was last year. Therefore, while there are still some areas that cannot be predicted, we will almost certainly return to profitability this fiscal year. Profits are also rising steadily.

Then seventh-place STUSSY. Last year, there were changes in U.S. policy, and it was difficult to make a uniquely Japanese project. As a result of the elimination of the distinctive Japanese lines that had been developed, such as Kids, we have fallen far below last year's levels. In the first half of the year, it has almost resolved, and it seems things will return to normal conditions. As predicted, there's been a fall in sales, which we've been working on. This is also on-track: there is gross profit without a reliance on clearance sales.

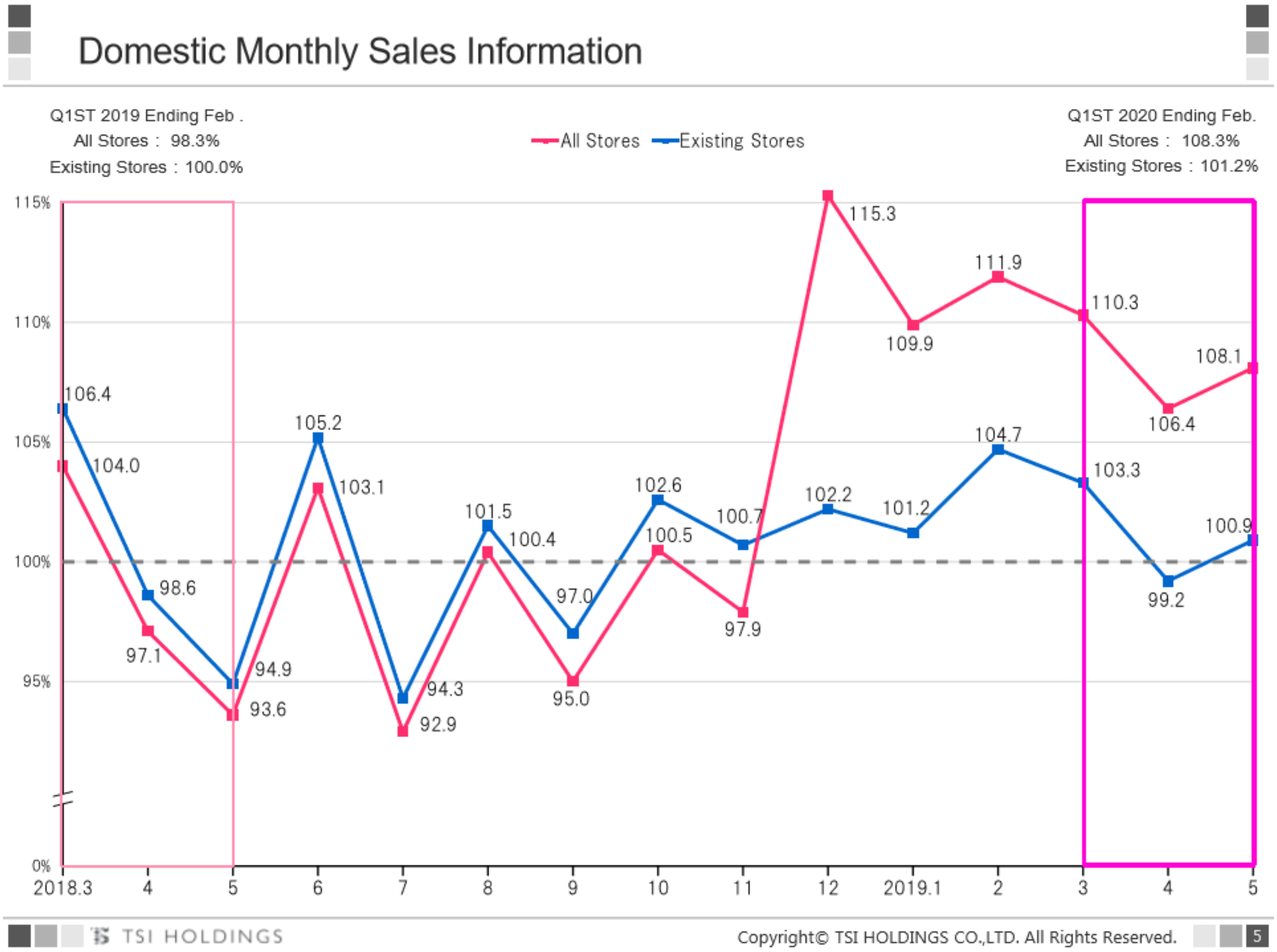
I talked about HUMAN WOMAN earlier, so I'll move on.

Next is UNDEFEATED. This is a brand centered on sneakers. Sales and gross profit also improved, as the Company steadily opened new stores. The reason why sales are improving is that sales of limited-edition sneakers, such as Nike and Adidas, jump. This is a purchased product, and the sneakers themselves are not high-margin products. The reason why gross-profits is improving is that share of apparel items of UNDEFEATED, of course, is just the brand, is rising..

Lastly, HUF. This is a U.S.-based business. This is a deliberate strategic shift that is causing sales to decline. In the U.S., we will move away from wholesalers that sell to mass retailers and switch to directly managed stores, with the key point being to become a brand-first business. These results have the effect of curbing reliance on wholesalers.

We're reducing the number of wholesalers and increasing the number of directly managed stores. Our business in Japan is growing steadily. Domestic sales grew approximately 50% compared with the previous fiscal year. As a result, the gross profit margin improved. The first quarter is on track. However, the U.S.-based HUF itself has not completely switched to a directly managed business, and it is still heavily weighted towards the wholesale business. As a result, we may not be able to control fluctuations in sales. I'm paying close attention to this. The rebranding itself is proceeding steadily.

The overview of the results is as follows.



Please see the next page and the fifth page for the comparison of sales at existing stores and all stores. We are undertaking big changes, moving along with the overall trends of the industry, I think. Blue is existing stores; red is all stores.

Net Sales Per Channel

	Q1ST 2019 Ending Feb.		Q1ST 2020 Ending Feb.			
	Results (Million yen)	Composition Rate (%)	Results (Million yen)	Y/Y (%)	Composition Rate (%)	Composition Rate Y/Y Change
Department Stores	6,667	17.0	6,015	90.2	14.0	-3.0pt
Commercial Facilities(*1)	19,797	50.5	22,509	113.7	52.5	+2.0pt
E-Commerce	6,760	17.2	7,948	117.6	18.5	+1.3pt
Overseas	2,455	6.3	2,180	88.8	5.1	-1.2pt
Others(*2)	3,512	9.0	4,216	120.0	9.8	+0.9pt
TOTAL	39,193	100.0	42,870	109.4	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.

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Page six above shows performance by sales channel, and this is a trend that has continued. The department store channel has seen decreased sales and, as a result, e-commerce and other sales channels increasing.

A number of department store brands were withdrawn last year. This is almost the end of the reduction. Actually, the decline in the proportion of department store sales is largely due to the large increase in the number of brands such as Ueno Shokai that do not sell in department stores at all.

E-commerce is rising, making up 18.5% of the total. When we made a report at the time of the announcement of the fourth quarter of the previous fiscal year, we explained that e-commerce accounted for more than 20% of the total. Every year, the first quarter has a lower proportion of e-commerce. The number of customers who purchase at stores tends to be high, affecting the proportion of e-commerce, but it is increasing compared to the previous year. The figure for e-commerce sales itself is growing steadily.

Overseas sales have declined. This is the effect of withdrawing from Tsubomi. Despite the losses, sales were large. It's a big impact. Overseas, we are steadily advancing our policy of investing in the long-term growth of digital and overseas businesses as part of our medium-term plan. I don't believe that overseas markets have come to an end for us.

Next is in-house e-commerce, which is often asked about. There has been growth here.

Moderator: In-house e-commerce sales are up 11.7%. For third-party e-commerce, it’s 20%. Both figures showed a double-digit increase.

Uetadani Today, the Company's own EC ratio is 27.1%. However, with the exception of nano·universe, which has a high ratio of third-party e-commerce sales, about 35% of our e-commerce business is currently conducted by our own e-commerce companies.

Store Distribution

		Q1ST 2019 Ending Feb.	FY Ending Feb. 2019	Store Open	Store Close	Q1ST 2020 Ending Feb.
Domestic	# of Stores	1,073	1,021	+19	-7	1,033
	Change	+21	-99			+12
Overseas	# of Stores	167	143	+5	-55	93
	Change	-10	-10			-50
Total	# of Stores	1,240	1,164	+24	-12	1,126
	Change	+11	-109			+12

*Number indicated on "Change" rows are comparison with the end of their previous fiscal years.

*The number of the stores BEIJING TSUBOMI FASHION CO.,LTD. locates (50) is included.

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The next page includes store numbers.

This concludes the presentation based on the presentation materials.

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