



TSI HOLDINGS

TSI HOLDINGS CO., LTD.

Q3 Financial Results Briefing for the Fiscal Year Ending February 2020

January 14, 2020

Question & Answer

Moderator: Thank you for your explanation. We would like to move on to the question and answer session.

Kitagawa: I'm Kitagawa from the Senken Shimbun. You have decided on a partner company for the HUF business in China. What size market do you expect and how much would you like to see the business grow? I would also like to ask if you could disclose the name of the partner company at this time?

I have one more question. What is your target in-house ecommerce ratio as you said you plan to strengthen ecommerce?

Uetadani: First of all, we are yet to conclude a contract on the HUF business in China. Among five to six companies, from a fairly large company to a small edgy company, we made various studies and selected the best possible one, but I can't name it yet. We will disclose this information as soon as we are able to do so.

We understand well about the difficulty for a Chinese company, which has no business contact with a foreign brand like us, in obtaining approvals or licenses there. The brand business also needs familiarity with the region and we plan to cooperate with a company that has such experience. As the HUF products will be relatively high-priced in China, we plan to work with a company with similar experience in a similar field.

In terms of the scale of sales, the business will be larger in Japan, of course. We are still considering with the partner company at what speed we should expand it. There are companies that separately open 200 or 300 stores in a few years and shut poorly performing ones collectively, but we do not want to do so. The key point is to operate the business in a realistic manner while we raise the weight of ecommerce. In the near future, of course, the business will be larger than in Japan or the US. I believe that the Chinese market will be the largest for the HUF brand. We will disclose the information once we finalize a contract.

Regarding the question of expanding in-house ecommerce, the in-house ecommerce ratio is around one-third at present. For example, Ueno-Shokai has a very low weight of ecommerce and its main sales channel is ZOZO.

Ueno-Shokai does not offer any discounts or coupons at all and relies heavily on ZOZO. There are also brands at which third parties account for heavy weight, such as nano · universe and SANEI bd, a group company targeting the high-volume zone.

Though we provide in-house ecommerce for around half of the brands sold at department stores at high prices, the group-wide ratio is still around one-third. In the future, we intend to raise the total in-house ecommerce ratio to more than half.

However, since third parties are important in attracting new customers, we think that we seek and negotiate with third parties without offering discount coupons or joining point competition and grow our own ecommerce while keeping transactions with those third parties to a certain extent.

Moderator: Are there any other questions?

Motohashi: Motohashi from WWD Japan. This time, you said that it was difficult to secure gross profit. Could you tell us how the discount management system using AI is functioning?

Uetadani: We have introduced AI far ahead of competitors in cooperation with a company called SENSY. However, it is not easy to be able to raise gross profit by simply introducing AI. We believe that it is not

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essential for us to raise gross profit by controlling prices, since we should be thinking about how to sell our goods appropriately as a company focusing on the brands our customers like.

Due to the character of our businesses, inventories must be consumed ultimately. AI is used for reference for determining the extent of discounts depending on item numbers. However, we do rely solely on AI. Our merchandisers implement discounts by comparing their plans with values provided by AI as reference values. As a result, I believe we can use AI to some extent.

In areas where the credibility is not high or for the timings of discounts, final gross margin would be larger if we made discounts at the beginning of a year as AI instructs. As we cannot accept such instruction, we use AI's values for reference.

Typically, Sanei International, a group company, uses AI's suggestions for reference on whether womenswear brands at department stores should begin with a 30% or 20% discount at the beginning of a sale or how long a 20% discount should last.

In the same way, the amount of initial input is determined with AI's values used for reference. Of course, we decide on this with the human skills, but we use AI for reference, and not for all brands.

AI is also used for distribution. For regional stores, particularly for companies that have a large number of stores nationwide, we use AI in deciding to distribute what numbers of items, including what sizes and color balances, to each store.

Because there are limits in terms of both human patience and the use of time, we use AI for reference by categorizing the patterns of distribution as to which sizes and colors should be allocated, and in what quantity to each store, rather than using similar normal distribution patterns. We use AI's figures as reference values for areas where human capacity may be able to do, but the accuracy may become rough due to the limits of human patience.

Moderator: Are there any other questions?

Kojima: I'm Kojima from Bunseki Koho Laboratory. Thank you for the detailed explanation.

You said that the Company would accelerate the structural reform. Is there any difference in your view on a proper number of stores once the structural reform is completed, based on the circumstances in the current fiscal year?

Uetadani: I often use the term structural reform to mean the abolition of unprofitable brands, but this is not the case.

As we have more than 40 major brands in this kind of business, the revision or abolition of the brands occurs regularly. However, I mean an organizational problem. I see the need for modifying the structure that more than 20 group companies currently operate independently under the holding company.

Compared with competitors, we are operating in a completely decentralized manner and we see the need to change this structure. The term means no abolition of unprofitable brands or closure of stores.

Kojima: I would like to ask another question. You have paid stable dividends for a long time. If, for example, you make a downward revision this time, do you also review the dividend policy as a kind of shock therapy? Or do you think your company's stance will stick to stable dividends?

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Company Representative: During the nine years since SDI Holdings was established in 2011, the Company made downward revisions on a case-by-case basis. While it initially incurred losses, we received a variety of comments.

Since its foundation, the Company has basically focused on stable dividends. Nevertheless, the Board of Directors and other bodies have been discussing whether this is sustainable.

In terms of shareholder returns, we are considering a variety of factors, including the dividend payout ratio and share buybacks. What we should do most is to announce a clear target for the payout ratio. Until recently, though, we continued to make downward revisions. We are very sorry that we cannot declare the clear numerical target. However, we have operated with the term "stable dividend" firmly in mind, though I believe that there may be ample room for a policy change.

Moderator: Are there any other questions?

Since there are no more questions, we will close the financial results briefing. Thank you for today.

[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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