



TSI HOLDINGS

TSI HOLDINGS CO., LTD.

Financial Results Briefing for the Fiscal Year Ended February 2020 QA

April 14, 2020

Event Summary

[Company Name]	TSI HOLDINGS CO., LTD.	
[Event Type]	Earnings Announcement	
[Event Name]	Financial Results Briefing for the Fiscal Year Ended February 2020 QA	
[Fiscal Period]	FY2019 Annual	
[Date]	April 14, 2020	
[Number of Pages]	9	
[Time]	10:40 – 11:15 (Total: 35 minutes, Presentation: 0 minutes, Q&A: 35 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]	30	
[Number of Speakers]	4	
	Shinichi Uetadani	Chief Executive Officer
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Question & Answer

Yamada: Good morning. This is Yamada from the Public Relations Office. In the form of a video conference, I would now like to hold a question-and-answer session based on the briefing. Responses will be provided by the President, Mr. Uetadani, Director Oishi and, then by Naito, who is the Manager of the Accounting Department. If you have a question, first of all, use the chat function and then send the question after stating your own name and your company name.

Mr. Kaku of the Tokai Tokyo Research Center, can you hear me?

Kaku: Good morning. I would like to ask a question about Nano Universe. You have replaced the management team, and you intend to leverage it. What was the background to this replacement? What wasn't good? What would you like to change in the future?

Uetadani: Good morning. Thank you, Mr. Kaku, for your question about the background to Nano Universe and other related matters. Our team completely took over the management from the founder and, for several years, our former president, Mr. Hamada, was in charge of managing the team and revitalizing the Company team.

This time, the reason why our weakness was revealed was as follows: Our strength is in creating new products that sell over an expanded sales base and create talking points. When the market is in a downtrend or when we have a fall/winter like the one we've had, however, our ability is very weak in rolling out high-quality merchandise while reducing inventory

We determined that it was necessary to fundamentally reconfigure this, and we changed the president from Hamada, who was the former president and superb at marketing, to Mr. Maekawa, who has much experience in MD, inventory control, and the like. We have changed the entire structure of MD and the system for managing all inventory. And we are now, as an example, while keeping the sales the same, reformulating the system so that we can transfer inventory with 20% less inventory and purchasing.

Kaku: Understood. Thank you, very much. That's all I want to ask about.

Uetadani: Thank you.

Yamada: Thank you. The next question is from Ms. Kabeta of the Senken Shimbun. It's about whether or not the numerical targets of the medium-term management plan will be reviewed. Mr. Uetadani, please.

Uetadani: I regret that we have no choice but to review the short-term figures. The outlook for the current fiscal year is unclear, and we expect to revise the figures for the next three years. However, we are aiming to achieve the 5% operating income margin in the medium- to long-term, so When this situation has settled down, we would like to revise the figures and make an announcement on a fiscal year basis.

Yamada: Mr. Kabeta, is that okay?

Kawada: Yes, thank you.

Yamada: The following is a question from Mr. Nozawa from Daiwa Securities. This is a question about what happened to the withdrawal from unprofitable brands that was being handled in the previous fiscal year. What actually happened to the restructuring costs of JPY740 million, which were incorporated in the original plan?

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Uetadani: Thank you. Regarding brand withdrawals in the previous fiscal year, we are proceeding as planned. Laline's Hawaiian business and a dispute are still in progress, and the two companies are currently in the final stage of the withdrawal and are taking advice from lawyers.

Therefore, the processing of this is nearing completion, and the final withdrawal process is still in progress, as this also involves the other party. Some matters need to be resolved, such as real estate owners and partners.

Nozawa: Understood. Thank you, very much.

Yamada: Next, we have a question from Mr. Motohashi from WWD. Are you considering withdrawing from any brands?

Uetadani: We don't intend to withdraw from any particular brand due to it not being good. I believe that what will happen is that the brands will split into brands that can compete on price when compared on the Internet and brands that cannot.

Therefore, there are no specific brand names at present. Even if a brand is profitable now, for brands that are lacking in competitiveness or price competition in the mid-term, we are considering gradually refraining from investing in them and phasing them out.

Going back to your original question, there are no specific brands that we have decided to cut, and in the mid-term, we are considering selecting brands that will continue as they have been in terms of past criteria. I hope that answers your question.

Yamada: Is that okay, Mr. Motohashi?

Motohashi: Thank you. That answers my question.

Yamada: Thank you, very much. The following is a question from Mr. Kawano from the Nikkei Shimbun. It is about opening new stores and closing existing stores in the current fiscal year and specific EC measures. Although there are no concrete numerical targets, and this may have been partially covered by comments a moment ago, I would like to ask Mr. Uetadani to answer this question, with a focus on details of measures.

Uetadani: First of all, as to opening and closing stores, as soon as things settle down, we are thinking of opening stores for new brands in metropolitan areas. We are not really considering opening new stores for existing mature brands in the current fiscal year, so we will only open new stores for brands that are in a growth phase, and will begin to do so as soon as the situation stabilizes.

As to closing stores, we will continue to review unprofitable stores and close them. Given the current situation, however, we believe that we need to establish withdrawal criteria that is stricter than before. In other words, the criteria for remaining open will be stricter.

We have begun, with each group company, to categorize stores and businesses that can and cannot survive in the mid-term under severe stress. On top of that, as to whether stores will continue or not after the Covid-19 situation has calmed down in the mid-term, I think that the number of stores that will close down in the future will be considerably more than the number thereof for which closure was considered.

Currently, we are reviewing all brands and all businesses, and we would like to announce this once we have completed our work and are able to disclose it.

In addition, our composition rate of EC has grown more than 20% in the current fiscal year, and we intend to further increase this percentage. The goal is 50%. If we include items that are tried at our stores and then

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received later on, in the medium- to long-term, we would like to have digital sales account for about half of total sales. In addition, for each business, the goal is to have a majority of that 50% be through in-house e-commerce or directly- managed e-commerce. I hope that answers your question.

Yamada: Mr. Kawano, does that answer your question?

Now, This is a question from Miyake of the Apparel Industry Times. TSI's current production rate is the total of its functional subsidiaries, i.e., its production network, so it is not the total. At present, Chinese production is roughly 60% and 70% in quantity. On the other hand, production in Japan has risen to 17% on a monetary basis and to 11% on a volume basis.

In addition to this, in the light of Covid-19 pandemic, will you review increasing the domestic production rate? Could you provide an answer about this?

Uetadani: Thank you for your question. Of course, I think that brands around the world will work to shorten production and supply chains in locations near to their sales bases. We are considering this. We have two plants in Japan, and we are shifting to domestic production for brands for which the unit price is feasible with domestic production.

For other brands, for example, we are not relying solely on China, but will be diversifying across Thailand, Vietnam, and Mexico in order to deal with brands for which domestic production is not very profitable due to unit prices.

Incidentally, even at our Company-owned plants, we are also accepting work from other brand companies, which have comparatively high unit prices. However, there is a return-to-Japan trend, and we intend to increase the domestic production rate for high-priced brands. I hope that answers your question.

Yamada: Mr. Miyake, does that answer your question? Would you like to ask any additional questions?

Miyake: Thank you, very much. That's fine.

Uetadani: Thank you.

Yamada: Next is a question from Mr. Ichikawa of The Sen-I-News. There are many factors that have not yet been decided regarding your approach to inventory disposal for spring and summer, and production adjustments for fall and winter. What are your thoughts on the current status? And what instructions are being given to business managers? I would like you to hear your point of view on these matters.

Uetadani: As to spring and summer clothing, we've taken several actions. First of all, depending on the brand, for brands that can be carried over and that have a standard aesthetic, we've decided that for those that can be carried over to autumn/winter and those that can be brought next year, we won't sell them at a very low price. Therefore, items that can be carried over will be carried over.

For partly-finished items, we will stop processing at that point and turn items that can be turned into next-season items with modification to next-season items. For street products for which the body shape doesn't change much, such as cut and sewn items and hoodies, we stop printing and switch to printing for the next period and use them in the next period. In other words, we strive to carry-over, as much as possible, items that can be carried over.

Regarding items that cannot easily be carried over from a trend or market perspective, or that must be processed in the current fiscal year, as far as possible, we are striving to use up inventory, particularly through EC.

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As I mentioned in the CSR section, we do not want to leave surplus, and we do not want to sell at a greatly reduced price, so we want to carry-over as much as possible. For the brands for which that is not possible, we are trying to use up inventory, especially through e-commerce.

Furthermore, as to fall/winter products, we do not expect the situation to return to normal in the summer, so we are currently paring down the number of products considerably. For example, in general, in July and August, autumn and winter products will be launched and store inventories are switched then. There is also the question of whether this cycle in the fashion industry is really good, and I think we need to reconsider that as well.

We believe that the timing for selling spring/summer items will be pushed back to being at that actual time and during those seasons in the current fiscal year. Therefore, we intend to adapt this fiscal year to seasonality that is closer to the timing of real customers, such as by selling summer products in the summer and launching autumn/winter products from September onward.

Especially for autumn and winter, rather than fearing a shortage of goods, we do not know what will happen, so we are thinking of producing a modest amount. I hope that answers your question.

Yamada: Did that answer your question, Mr. Ichikawa?

Next is a question from Mr. Kitagawa of the Senken Shimbun. With regard to market changes after Covid-19 is resolved and changes in consumption behavior, the answer provided by President Uetadani was based on autumn and winter of this year. If there are any other perspectives, could you please note them?

In the meantime, I would like to take a question from Mr. Kanzaki of the Tsuhan Shimbun. Unified commerce does not refer to one person with many people as is the broad meaning in live commerce, but rather does it refer to the integration of digital and in-store operations on a one-to-one basis? Mr. Kanzaki, is this what you would like to ask?

Kanzaki: Yes, that's fine.

Yamada: Currently, Nano Universe has some services that are slightly ahead of others, so let's hear about that. And how will TSI HOLDINGS, as a whole, handle unified commerce in the future?

Kanzaki: Please.

Uetadani: As for unified commerce, we have done a number of things on a Company-wide basis. We have almost completed consolidating the inventory of directly-managed e-commerce and the inventory of stores. A system that includes an application in which inventory that is not available in a store, is collected from the EC warehouse, and shipping to the customer is being introduced across all brands. In addition, there is a tool called "STAFF START" used by other companies in which sales staff introduce and send styling information, which we are also introducing for several brands.

In addition, Nano Universe, which Yamada mentioned earlier, is slightly ahead of others in terms of serving customers via chat. With this, the customer can ask with chat on the web, as if they were asking sales staff in a store, questions such as what the size feels like or whether an item is thick or thin. Nano Universe has been doing this for about two years. The service was cost-effective, so we decided starting a new chat service to stores handled by our own employees, for matters previously handled by outsourcing or through a center.

In addition to that, HERO, which I mentioned earlier, is a new and different tool from the UK, and we are considering the introduction of this tool in around June. This depends on how stores operate, but the original plan was to start in the first half of the fiscal year, conduct some experiments, and increase the number of

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brands it will be used for in the second half of the fiscal year. We are making preparations to start from Laline, which handles cosmetics.

Now that most of our stores are closed, however, we have no choice but to drastically accelerate the shift to digital products. Going forward, this is what we will discuss. We are considering expanding the range of brands and target stores that will adopt this tool. Including cost estimates, we began examining the introduction of this system for more brands and stores during the fiscal year under review than we had initially thought and the introduction of this system to most, but not all, brands in the next fiscal year. I hope that answers your question.

Yamada: Mr. Kanzaki, does that answer your question?

Kanzaki: Does that mean that what Nano Universe was doing will be manufactured in-house and that what HERO is doing will be done in a different way?

Uetadani: We are thinking of doing them at the same time. Outside contact centers used by Nano Universe are handled by our Company's employees and stores, and HERO was originally designed to be handled by the Company's store personnel. For Laline, and several apparel brands, the handling will start at the same time, and the same team will compare both, and we intend to verify whether or not the approach fits or doesn't fit with each brand. Therefore, we plan to trial several tools and setups at the same time.

Kanzaki: Understood. Thank you, very much.

Yamada: Next is a question from Mr. Kitagawa of the Senken Shimbun. How will Covid-19 affect the market in the medium- to long-term, not in the current fiscal year? Will you about what you are considering in light of the current changes in consumption and the decline in purchasing power?

Uetadani: I think that everyone is perhaps thinking the same. There will not be a complete return. My understanding is that not returning to normal means not returning to a world with good business conditions in which items are unnecessarily made and unnecessarily bought. Therefore, even before the Covid-19 turmoil occurred, our industry was criticized in relation to environmental problems and other such factors. We, ourselves, thought so too, so I think that the world will become one in which we can accelerate that more, make only what we really need to, and give only necessary things to our customers. If that happens, the rate of full-price consumption will increase, but the amount of sales will certainly decrease.

Similarly, what we thought that we had to think about was selling summer products confidently in July and August and start autumn and winter products in and after September, as was spoken about a moment ago and, up until now, we have continued activities whereby we have customers buy items at a time that does not match the season at all, and I think this will probably change as well.

Of course, it depends on the brand, but if we make and release items when customers want them, I think that the lead time will have to be short. Therefore, based on this point as well, we believe that it is necessary to switch from mass production based on forecasts.

In this sense, we believe that we cannot survive unless we significantly change our entire supply chain and business model.

I certainly think there will be a decline in sales as the economy deteriorates and purchasing power declines. However, I think that this will change our customers' thinking more than ever, so rather than this being about our perception of the economy, we must change our business model, and what we are envisaging for after Covid-19 is that the rate of full-price consumption will increase and sales and quantity will decrease.

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Yamada: Is that okay, Mr. Kitagawa?

Kitagawa: Yes, thank you.

Yamada: Does anyone have any other questions?

I would like to conclude this question-and-answer session for the results briefing. 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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