TSI HOLDINGS CO., LTD.

Financial Results Briefing for the Fiscal Year Ended February 2020

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
[Fiscal Period]	FY2019 Annual
[Date]	April 14, 2020
[Number of Pages]	18
[Time]	10:00 – 10:28 (Total: 28 minutes, Presentation: 28 minutes, Q&A: 0 minutes)
[Venue]	Webcast
[Venue Size]	
[Participants]	
[Number of Speakers]	1 Shinichi Uetadani Chief Executive Officer

Presentation

Uetadani: Good morning. My name is Uetadani, and I'm the CEO of TSI HOLDINGS. Let's start the financial results briefing over video.

Consolidated Financial Highlights -Profit and Loss-

Unit:Million Yen

	FY Ending Feb. 2019		FY Ending Feb. 2020					
	Results	Composition Rate (%)	Results	Composition Rate (%)	Y/Y Change	Y/Y (%)	Against Plan (Change)	Against Plan(%)
Net Sales	165,009	100.0	170,068	100.0	5,058	103.1	▲932	99.5
Gross Profit	87,093	52.8	89,382	52.6	2,288	102.6	-	-
SG&A Expenses	84,812	51.4	89,312	52.5	4,499	105.3	-	-
SG&A Expenses(exd. Goodwill Amortization, Depredation and Amortization)	79,935	48.4	83,863	49.3	3,927	104.9	-	-
Goodwill Amortization	886	0.5	1,024	0.6	137	115.5	-	-
Depreciation and Amortization	3,990	2.4	4,424	2.6	434	110.9	-	-
Operating Income	2,280	1.4	70	0.0	-2,210	3.1	▲930	7.0
Ordinary Income	3,902	2.4	1,851	1.1	-2,051	47.4	▲649	74.0
Extraordinary Income	365	0.2	6,289	3.7	5,923	1719.6	-	-
Extraordinary Loss	3,208	1.9	4,281	2.5	1,072	133.4	-	-
Profit Before Taxes	1,059	0.6	3,859	2.3	2,800	364.3	-	-
Profit Attributable to Owners of Parent	-185	-0.1	2,181	1.3	2,367	-1173.2	▲1,118	66.1
EBITDA ※	7,157	4.3	5,518	3.2	-1,638	77.1	-	-

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

TSI HOLDINGS 2

Please turn to page two. This is an overview of the profit and loss. First of all, I would like to sincerely apologize for revising our results again after we did so in January. Even in January, we were rather conservative. But from the end of January, our results further deteriorated, and until February, our forecasted results changed on a weekly basis.

As I mentioned in 3Q, sales fell considerably below initial forecasts, as the fall/winter sales strategy had not worked well, and ultimately, sales fell considerably compared to initial forecasts due to COVID-19 making things worse.

The reason of the increased revenue is due to the full-year contribution from the acquisition of Ueno Shokai. In fact, in terms of sales and purchasing budget in that period, the sales dropped considerably. That directly affected gross profit and loss, and results were, unfortunately, hampered.

In terms of gross profit, from a while back, we curtailed purchasing. But that wasn't enough, and SG&A expenses were expected to be more of an issue by summer. Therefore, we have worked to reduce SG&A by nearly JPY2 billion compared to the initial level at TSI HOLDINGS and our operating companies. But we have not been able to do that. I'm sorry that, in spite of trying, we were unable to do that.

Those items were reflected almost as is in the ordinary income. In terms of net income, extraordinary gains, which are the sum of gains on the sale of real estate and gains on the sale of securities, totaled about JPY6 billion. At the end of the fiscal year, impairment loss at HUF in the US of approximately JPY2 billion was ultimately recorded as a result of adjustments with an auditing firm, resulting in a net income of JPY2.2 billion.

That concludes the overview.

Brands Overview

Unit:Million Yen

	FY Ending Feb. 2019			FY Ending Feb. 2020			Y/Y	
	Sales	Composition Rate (%)	Gross Profit Ratio (%)	Sales	Composition Rate (%)	Gross Profit Ratio (%)	Sales (%)	Gross Profit Ratio (pt)
1. nano・universe	28,349	17.2	47.1	27,185	16.0	43.7	95.9	-3.4
2. NATURAL BEAUTY BASIC	15,583	9.4	57.7	15,191	8.9	57.5	97.5	-0.2
3. MARGARET HOWELL	14,361	8.7	58.4	14,034	8.3	58.0	97.7	-0.4
4. PEARLY GATES	12,173	7.4	51.0	12,582	7.4	50.3	103.4	-0.7
5. AVIREX ※1	2,438	1.5	60.5	8,495	5.0	60.7	348.4	+0.2
6. ROSE BUD	6,869	4.2	43.7	5,949	3.5	48.5	86.6	+4.8
7. STUSSY	5,607	3.4	69.2	5,263	3.1	70.3	93.9	+1.1
8. UNDEFEATED	3,904	2.4	41.1	4,791	2.8	43.3	122.7	+2.2
9. HUF	5,159	3.1	47.9	4,678	2.8	46.0	90.7	-1.9
10. HUMAN WOMAN	4,849	2.9	55.8	4,557	2.7	55.1	94.0	-0.7
TOP10	99,296	60.2	52.4	102,729	60.4	52.1	103.5	-0.3
Other Brands	59,377	36.0	54.6	67,130	39.5	53.4	113.1	-1.1
Continuing Brands	158,674	96.2	53.2	169,860	99.9	52.6	107.0	-0.6
Closed Brands	6,335	3.8	41.3	207	0.1	4.4	3.3	-36.9
TOTAL	165,009	100.0	52.8	170,068	100.0	52.6	103.1	-0.2

*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 count UENO-SHOUKAI CO., LTD on this sheet from December 1, 2018.

TSI HOLDINGS

Next, please turn to page three. I will explain the details by looking at each major brand. Rather than the cause being specific unprofitable brands bringing us down, as was the case in the past, this time, almost all brands were suffered from a significant decrease in profit. This is not a temporary issue, and I think that this is an issue for our entire group, not just specific companies.

There is something noteworthy about the brand at the very top, Nano Universe, and the number nine brand, HUF. Each has specific circumstances, and for the past two years or so, the strategy of Nano Universe was to sell at full price and secure gross profit. The business had been recovering with both store sales and e-commerce sales doing well over the past two years. This time, we had reduced purchasing of fall and winter goods, but in essence, we were unable to free ourselves from the sales supremacy, and we sank because we held a large amount of inventory.

To address this issue, we have replaced the management team, including the president. And we have entrusted a president of operating companies, with much experience in areas of similar sales channels and sales, to rebuild the framework of merchandising, in particular. And the management team has been switched, and now, they are tackling remaking the framework. They have already started to do this.

Regarding brand number nine, HUF, business in Japan had proceeded smoothly so far. However, under a new

CEO appointed two years ago, a branding strategy was taken in which a switch was made from selling wholesale to retailers to directly managing stores in the US. But that didn't go well, and results worsened.

Accordingly, at the beginning of this year, we renewed our management structure, including the president, and under the new CEO, we have decided to restructure. We changed our Production Products Team, and in particular in EC, we have completed an acquisition.

This superb Company is an EC specialist for skateboards and action sports called Tactics. Their digital team has been stationed at HUF to strengthen HUF's digital marketing and our EC. This work has already started, including the restructuring. Of course, the situation for us is similar to that of the US lockdown, so we are working to minimize expenditure, including making temporary layoffs.

Sales Figures for e-commerce

3rd party sales worsened substantially from October 2019 onward. As a result, EC sales, which until now had continued to grow by double-digit, remained at 106.4% YoY.
However,in-house EC sales,which has been strategically incorporating omnichannel, remained robust at 114.2% YoY, due to the strategic enticement of customers to our website.

	FY Ending Feb. 2018	FY Ending Feb. 2019	FY Ending Feb. 2020	Y/Y
EC sales (million Yen)	28,932	34,139	36,337	106.4%
EC ratio (%)	18.6	20.7	21.4	+0.7pt
In-house EC sales (million Yen)	7,547	10,019	11,442	114.2%
In-house EC ratio (%)	26.1	29.3	31.5	+2.2pt

● Favorable factors of in-house EC sales

Number of Omnichannel members	**110.4% YoY**
Omnichannel sales	**114.6% YoY**

● Factors making the move to Omnichannel favorable

Sales through the app for the whole term	**163.0% YoY**
App profitability for the whole term	**103.0% YoY**

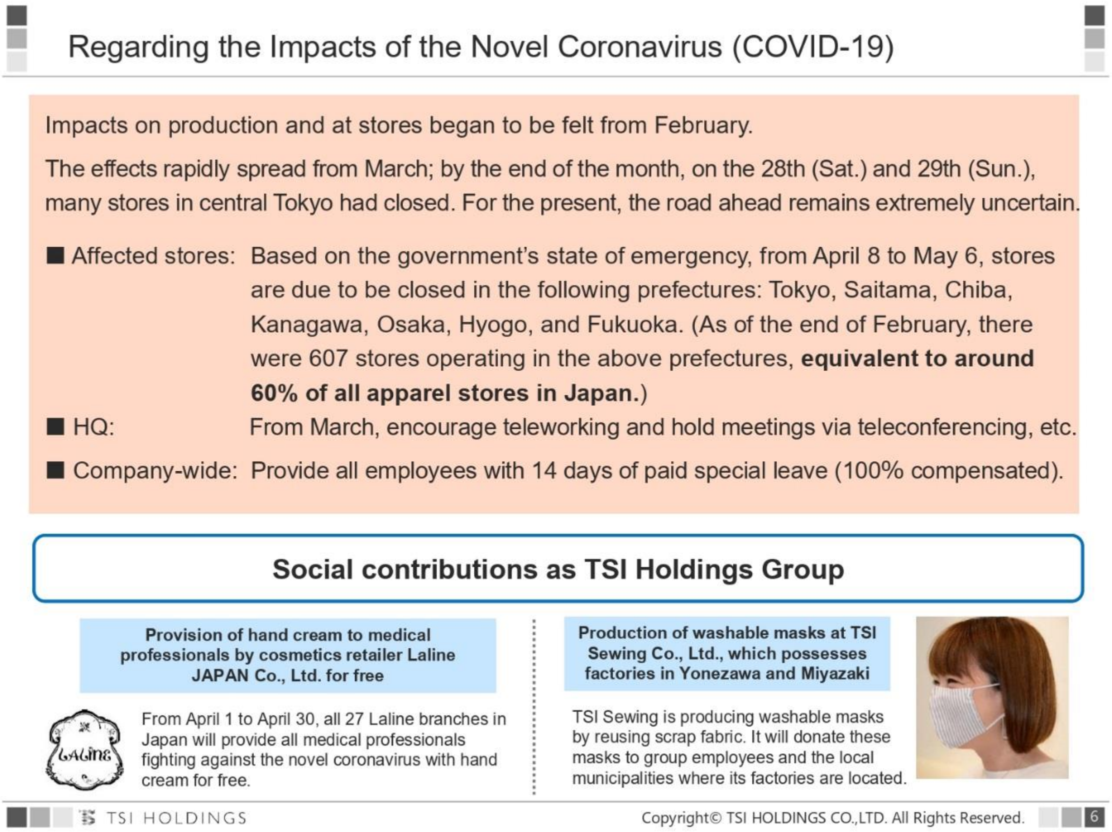
TSI HOLDINGS 4

Page four shows the status of e-commerce. Over the past few years with a full-price strategy, we have focused our efforts on increasing in-house e-commerce sales, and as a result, in-house e-commerce sales increased by 14% and the composition rate of EC sales reached by 21.4%. In particular, we achieved growth in our in-house e-commerce.

One KPI is to increase all-channel members, who use both stores and e-commerce. And our strategy of actively recommending apps for smartphones to stores has proved successful, and our e-commerce business is growing steadily. Going forward, we plan to continue expanding mainly through in-house e-commerce, which will include linking inventory with stores.

The fifth page is a summary of the previous fiscal year. This is the same as what I said in fall and winter of 3Q. We forecasted really difficult times and pared down our inventory and prioritized profits, but we still had too much confidence in our ability to earn more from existing businesses. We strongly regret that the pace of reforms was slow as a result of that.

Similarly, in essence, we did not have a good idea of the amount of time it would take for us to go digital and be able to completely sell at full-price with little inventory. Regardless of COVID-19, what we regret is that we need to change our corporate structure more quickly than we had expected, due to factors such as consumer awareness and environmental issues. In accordance with this, in a moment, I will explain our future initiatives.



Next, I would like to talk about the impact of COVID-19. Please turn to page six. At first, there was concern about the arrival of spring and summer goods because of the impact on production. However, sales started to stop around the world from February, including in Japan. Currently, the biggest issue is how much to control inventory, not because of concerns about receiving shipments but because we are unable to sell our products around the world.

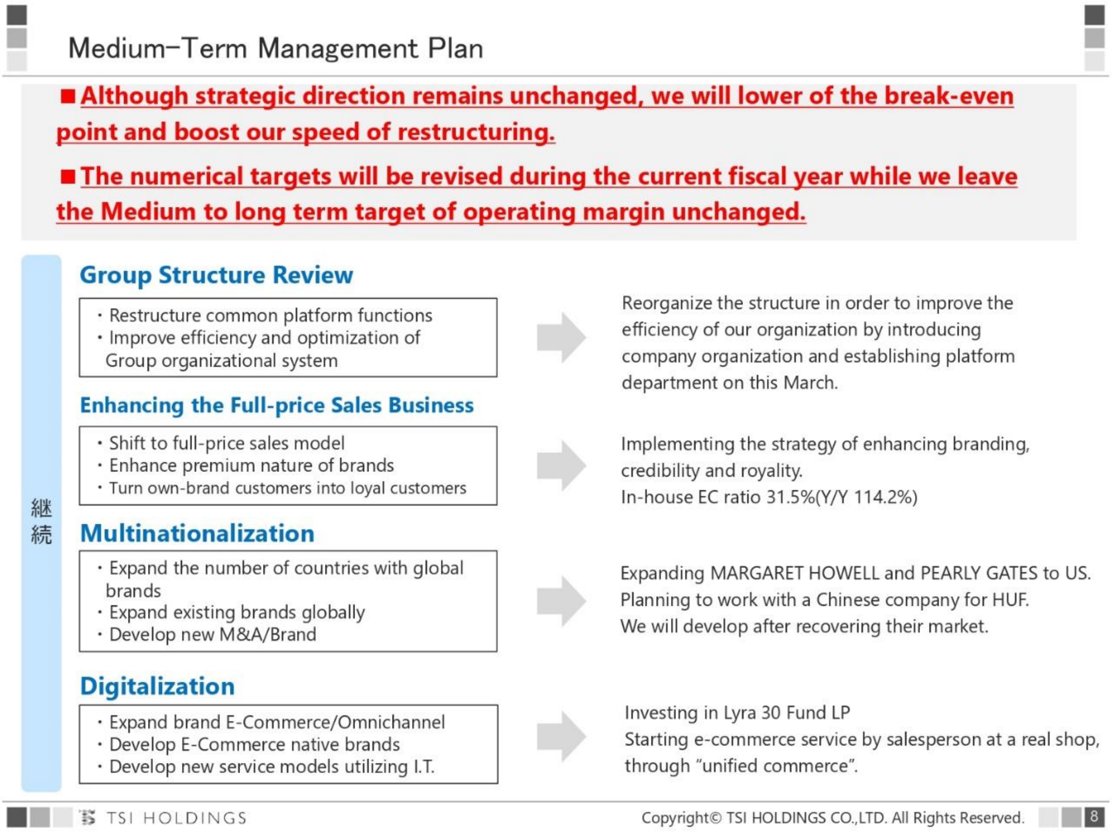
Regarding Japan, in accordance with the emergency declaration on April 8, all areas to which a request was made to close were closed, including standalone location.. In addition to the seven prefectures to which the emergency declaration was made, stores in Nagoya and Kyoto were closed on a voluntary basis after consulting with retail facilities. At present, approximately 70% of our stores in Japan have stopped operations.

Due to that, support is being providing for, of course, EC and stores that remain open. And under such circumstances, EC sales activities continue. In addition, about Our employees are trying telework as much as possible. However, for employees who are unable to telework, including employees at warehouses, we continue to operate by using a minimum number of employees after ensuring their safety.

Regarding compensation for employees on leave, we have decided to grant a special leave of absence, in which all employees are paid a full 14-day 100% salary. As a result of this and public holidays, our closure period is until May 6. In this closure period, employees will receive nearly all of their salaries, and those who are unable to telework may take a leave of absence. If the closure period is extended further, we will consider what measures to take.

Moreover, in terms of what we can do to assist the COVID-19 situation, Laline, a cosmetics firm, will provide hand cream to healthcare professionals. We have two factories, and we have begun producing washable and reusable masks on production lines with spare capacity.

In addition, after consulting with the government, we are currently considering what we can do as an apparel manufacturer and what we can do with our production facilities. I would like to report about this to you in the near future.



Now, I would like to talk about our midterm management plan and what we need to do in the current fiscal year. Please turn to page eight. Some of the headings are written in blue. This doesn't indicate a change, though. The strategy of shifting to full price and becoming a multinational and digital enterprise remains the same. However, We think this situation is not temporary and very tough. Our main approach is to drastically lower the breakeven point by taking advantage of this opportunity. And another approach we are now using is to accelerate reforms faster than originally planned.

The medium-to-long-term operating income margin target of around 5% remains unchanged. However, as the YoY targets for achieving that percentage are unpredictable, we would like to revise our annual plan. We will report this to you as soon as it is finalized.

Our plan and overall policy for 2021 Ending February

In response to the novel coronavirus (COVID-19), the Japanese government has requested people to refrain from going outside for nonessential reasons, and to stop using certain facilities, etc., which has had a severe impact on personal consumption. What is more, further effects are being felt following the government's issuance of a state of emergency on April 7. The outlook for the future is at present extremely uncertain, and is dependent on factors such as the length of time it takes for infections to subside or the effectiveness of the government's largest ever emergency economic stimulus package. As it is extremely uncertain, our consolidated performance forecast has not been determined. From now on, we will announce it promptly when a reasonable estimate is available.

The policy for this term

1. We will drastically restructure and change our business structure aimed at all of our companies include a holding company.

2.We will give priority to Medium to long-term improvement of the constitution over annual balance.

TSI HOLDINGS 9

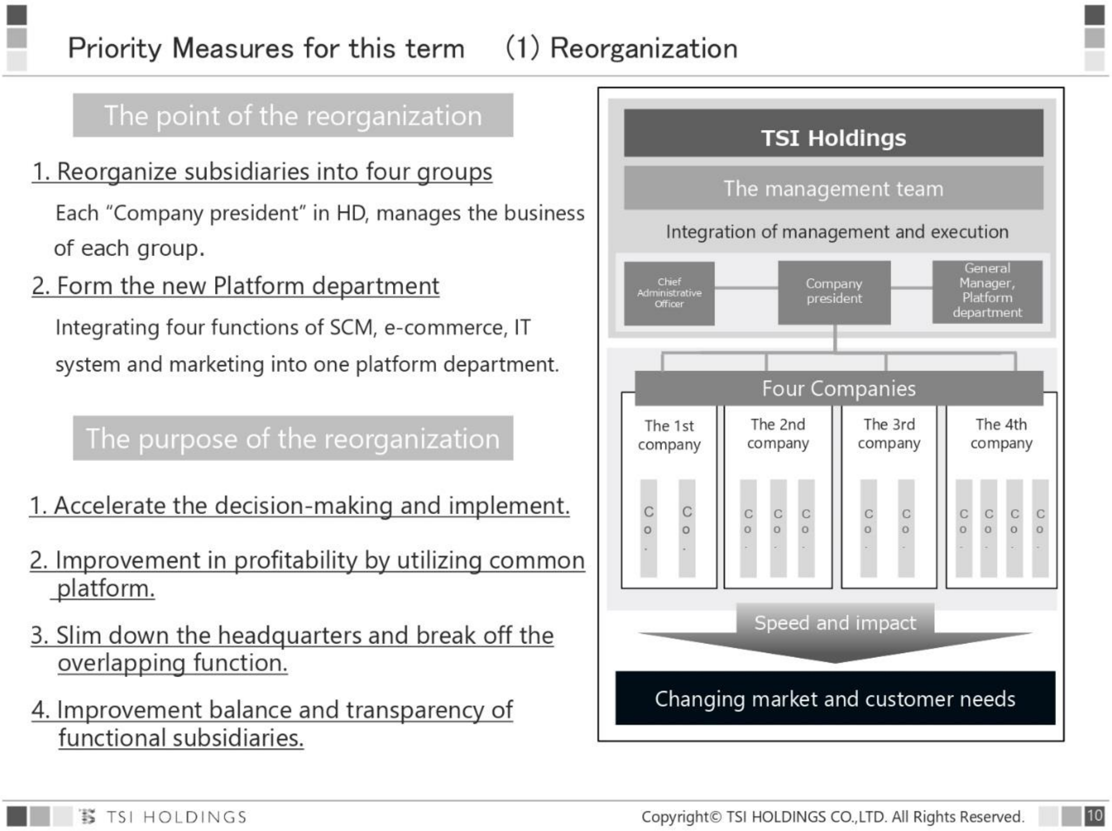
With this in mind, please turn to page nine. Regarding our plan and policy for the fiscal year ending February 2021, as mentioned a moment ago, the plan's figures are, unfortunately, unclear. We would like to disclose our forecasts as soon as possible, but given that they are still unclear to us, we would like to leave the forecasts for our consolidated financial results undetermined. We will disclose the information as soon as it becomes clear, including for the second half of the fiscal year.

While the figures are unclear, we must reduce costs for at least the first half of this fiscal year to minimize cash outflows. A major point that must be addressed during this period is the opportunity for us to change in the face of such a severe situation. Because we cannot engage in sales activities, the biggest thing that we would like to do in this fiscal year is drastically reform our business structure.

We are taking this crisis very seriously. If we do not change, we cannot survive, so we are already taking action. We will thoroughly implement measures to change our business structure that we were unable to start implementing in the past, such as lowering the breakeven point and organizational restructuring. And we will create a business structure that will enable us to survive.

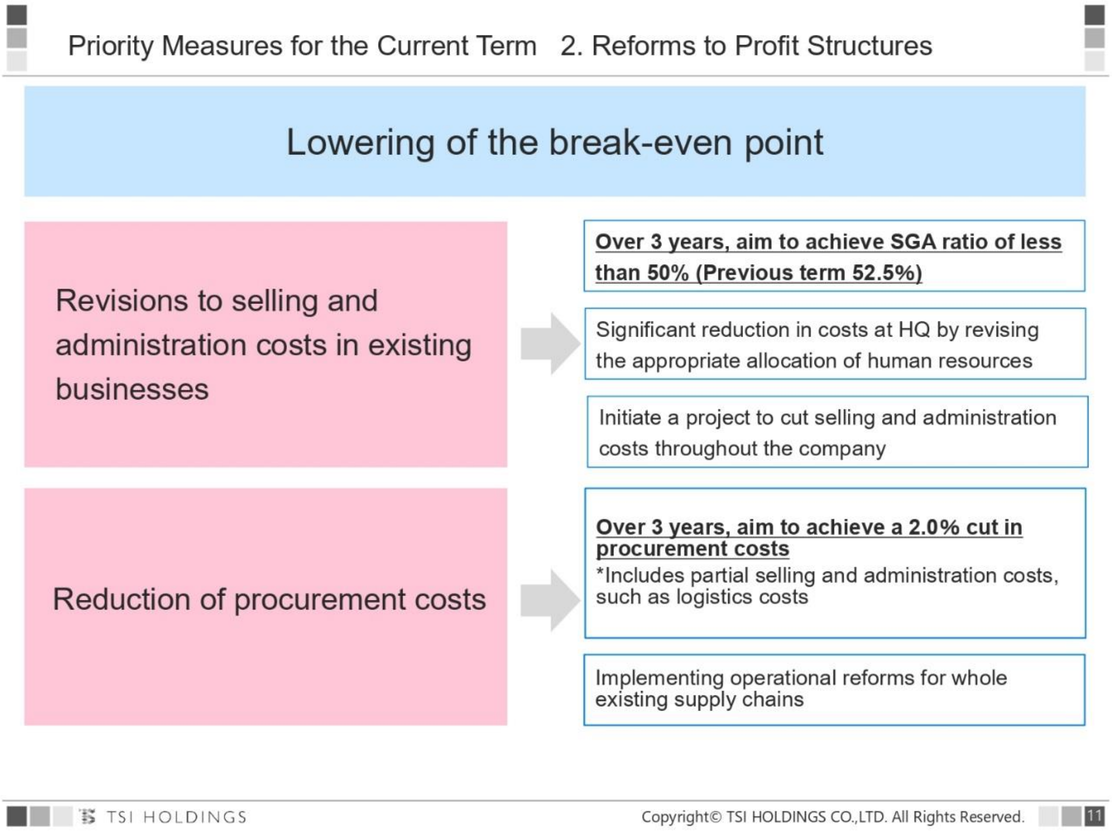
Another matter that I'd like to mention is the following. While we have been closing unprofitable businesses, we do not think that our sales will recover, even if the shock of COVID-19 wasn't here. Based on the assumption that the world will not completely return to its original state, we will select only those businesses that can survive in a digitized future, invest only in those businesses, and jettison old-style businesses.

Our two major policies are as follows. Drastically revise our business structure, lower the breakeven point, invest only in promising products, and be very strict in selecting businesses in which to engage.



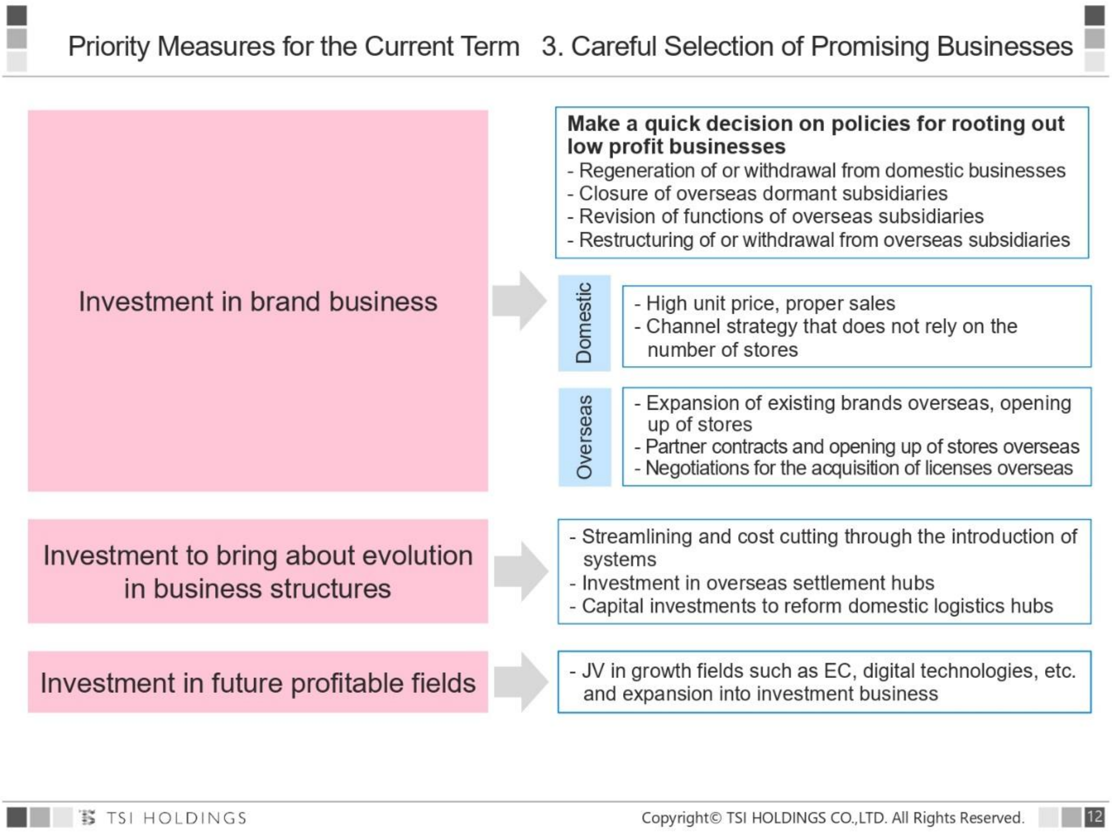
Please turn to page 10. Let's look at a specific policy, first about our restructuring. The purpose of this restructuring is to lower our breakeven point and increase our implementation speed. Originally, we had a structure in which the companies were very separate. But we have rearranged our apparel businesses, which are our main businesses, into four groups, which we call companies. And these four companies reflect the nature of our business more closely. Naturally, we have restructured ourselves so that we can share infrastructures and have the heads of these four companies work together to create and implement strategies as well as work with myself. In this way, the restructuring has made TSI HOLDINGS and the operating companies very close to each other.

Rather than focusing on individual brands, for each field in which the entire group should come together, such as supply chains, production, procurement, logistics, digitalization (including e-commerce) information systems, and marketing, we will establish a single team, and we will strive to increase efficiency by having a platform department that digitizes everything across the group. The key points are shown at the bottom left of the chart. These are essentially increasing our speed and streamlining operations.



Please turn to page 11. We understand that SG&A expenses are high due to having many subsidiaries. I think that inefficiencies caused by the Company split-up as a whole are greater than the extreme inability to earn gross profit as individual brands. The same can be said about the effects of COVID-19 and the warm winter from two years back. I think that current sales will probably not be maintained in the future. Based on the assumption that the world wouldn't return to its previous state, even if the COVID-19 situation calmed down, with people transitioning to teleworking, the switch to digital is also progressing. We will take steps to drastically lower the breakeven point so that we can work efficiently with fewer employees than before.

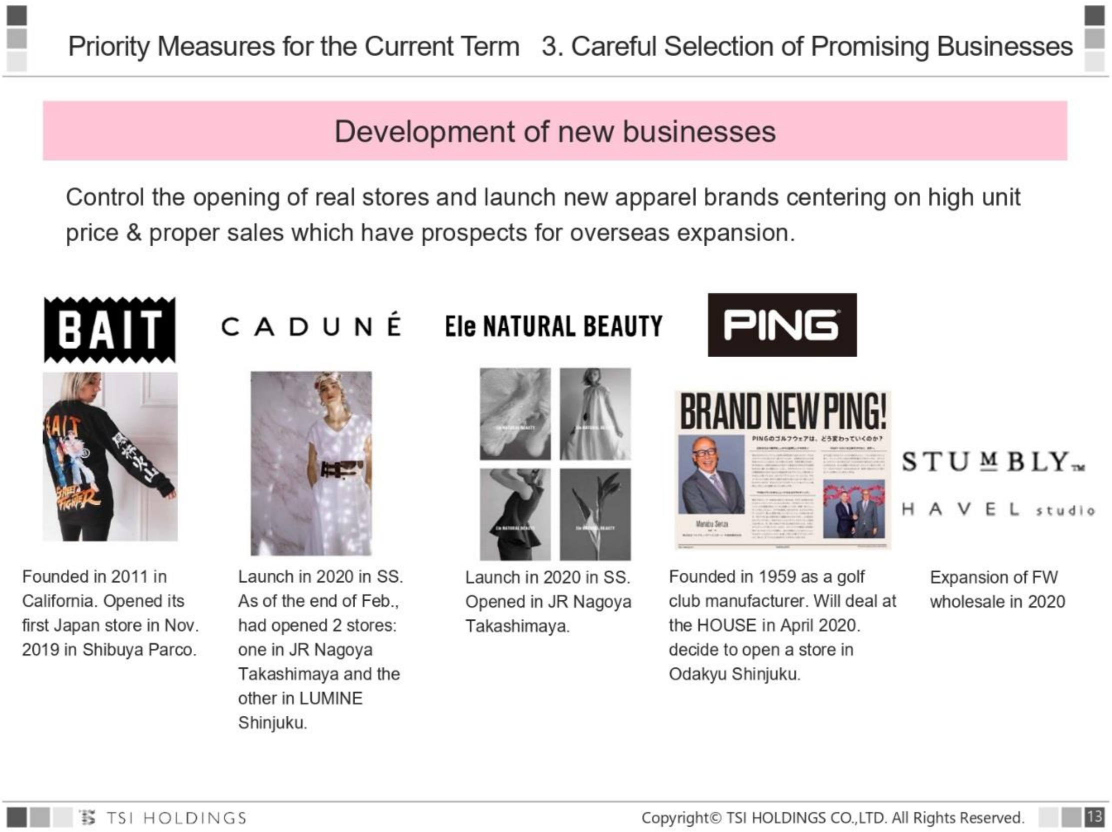
As daily sales have been falling, the number may change. But we think there are two main issues for us to be tackled One is reducing the ratio of SG&A expenses to sales to 50 points or less within three years and another is decreasing procurement costs by around two points by reducing cross-organizational supply chains, logistics, and procurement activities across the group. The second policy is to thoroughly lower the breakeven point, especially by lowering our fixed costs, because we cannot really carry out sales activities in earnest.



The 12th page shows the third policy. This is the reversal of the lack of speed and a sense of urgency last year, but we understand that we were less able to think about our business, so we will take advantage of this opportunity to allocate our remaining and growing businesses and cutting out businesses more severely than ever before.

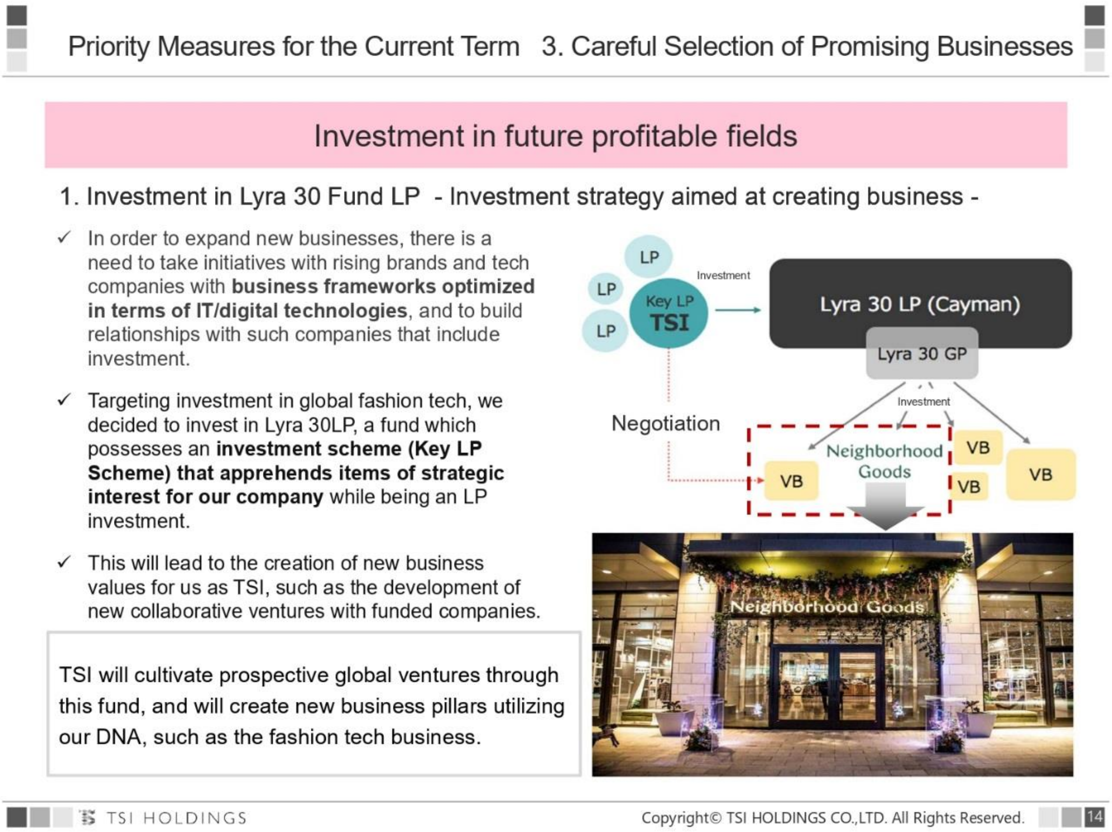
As shown in the materials, the standard is to specialize in businesses that can compete on the brand rather than in businesses that are forced to compete in price, particularly in terms of high unit prices and proper sales and then in businesses that are needed to open a large number of stores.

Regarding new businesses as well, we intend to focus our investments on businesses that are basically advancing digitalization and that can compete in overseas markets. I don't think we can continue to invest in the traditional, inefficient, physical apparel business. We intend to fully narrow down the scope of our efforts and make steady investments in digitalization and overseas expansion. The new business domains will be explained below.



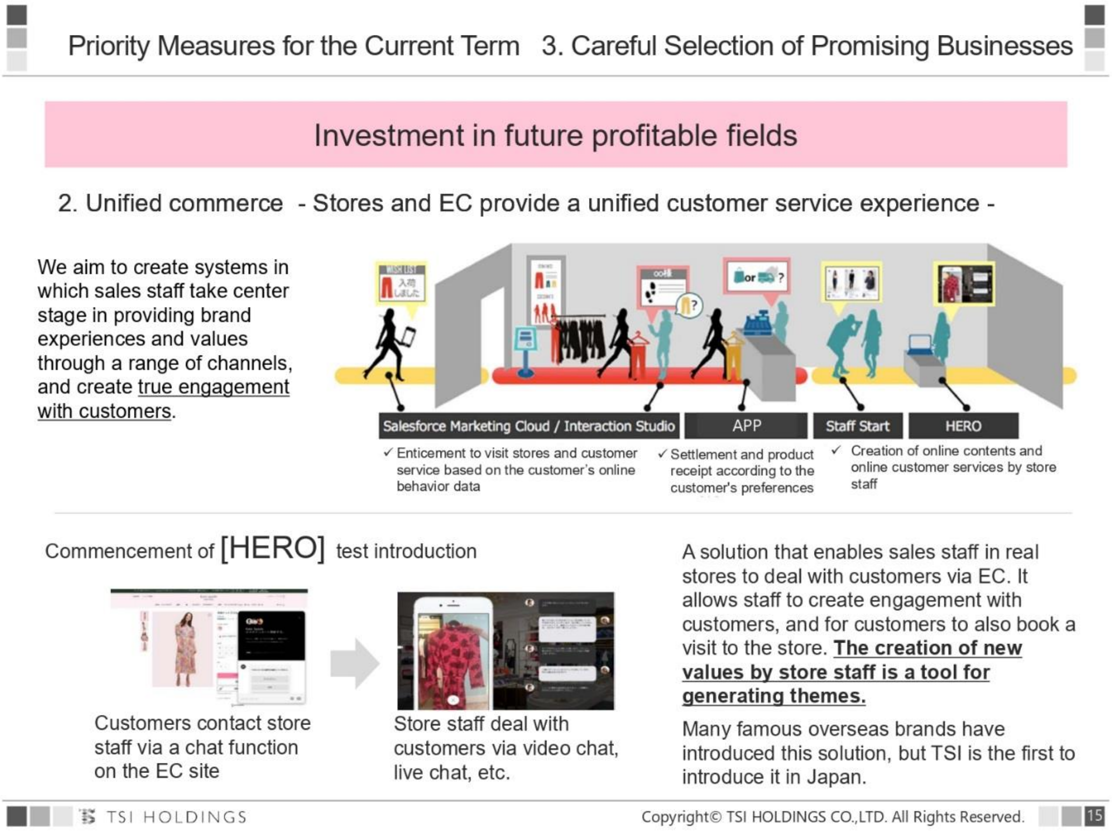
This is page 13. These are new businesses that we have already announced. Rather than being brands for which the number of stores will be increased for each of them, they are brands that operate with few stores at which a high percentage of items are sold at full price and that sell to wholesalers and with e-commerce. These are brands that basically focus on high prices. The aim for them is not selling in great volume.

Also, regarding the golfing business called PING apparel, which we also announced recently, we have officially signed a contract. This month, we were planning to start operations, but we won't open in some stores on schedule, so this business will start slowly. This new brand will be based on high unit prices, full-price commerce, and commerce that does not depend on the number of stores.



Next, let's look at page 14. This is about future investment. As announced recently, as a key investor and as an anchor investor, we invested venture capital in a fashion-tech fund. As we push forward with digitization, the intention behind our investment is to incorporate leading-edge business models from overseas, not from Japan, and we made this financial commitment as a major investor to the Singapore fashion tech fund, which has a very proven track record as a means to develop an arm for information gathering and negotiation.

As is written on this slide, They are investing in D-to-C branding called Neighborhood as the first investment project.



This is page 15, which show fields in which we should invest. We believe that one of our greatest strengths lies in our stores. Our strengths are our ability to serve customers and sell products at stores. In the future, stores will be more focused in urban centers, there will be less stores, and in-house EC sales will grow. And at that time, we intend to utilize our store salespeople on a digital basis. This is a unified commerce approach.

This is not an era in which a lot of inventory is made and a lot is left over, as in recent years. Therefore, we will ascertain customers' buying behavior in stores and e-commerce, and by fully linking the Company's EC inventory with the inventory of directly managed stores. In case we don't have suitable size for customers at stores,we will be able to order EC inventory at stores and deliver it to customers.

We will also introduce a system that allows shops to make suggestions about styling and the like through SNS and other means. We will introduce a new system in the UK called HERO that will enable us to serve customers, and it will include chats, movies, and videos on the web. Aside from HERO, we have also introduced domestic tools, such as Solairo, and the key to our unified commerce strategies is to make use of our directly managed stores and their salespeople digitally.

Our unified-commerce strategy involves upgrading our entire system, not just introducing tools. We will upgrade to half-digitized stores and salespeople, and this will include the training of salespeople.

Priority Measures for the Current Term 4. CSR Initiatives

Environmental initiatives

We are working to reduce our environmental footprint by streamlining our business activities and constructing environmentally friendly supply chains.

In order to turn our vision into reality, we have set the following 3 core goals for the current term, which all sectors of our group will work towards achieving.

Stamping out the practice of sending products to waste

As one of our basic policies, from the current term our group has resolved to completely do away with the practice of sending products to waste, and to make more effective utilization of reusing, recycling, etc.

Transition to environmentally friendly shopping bags

We will make the transition to more environmentally friendly materials in all our plastic and paper shopping bags, including the use of materials made from biomass or FSC-certified materials. (Once our current stock has been depleted, we will gradually replace our bags with those made from more environmentally friendly materials, with the intention of making a total transition within the current fiscal year.)

Reuse of plastic hangers

We will promote the reuse of distributed plastic hangers, with the aim of cutting plastic hanger use by around 50% during the current fiscal year.

TSI HOLDINGS 16

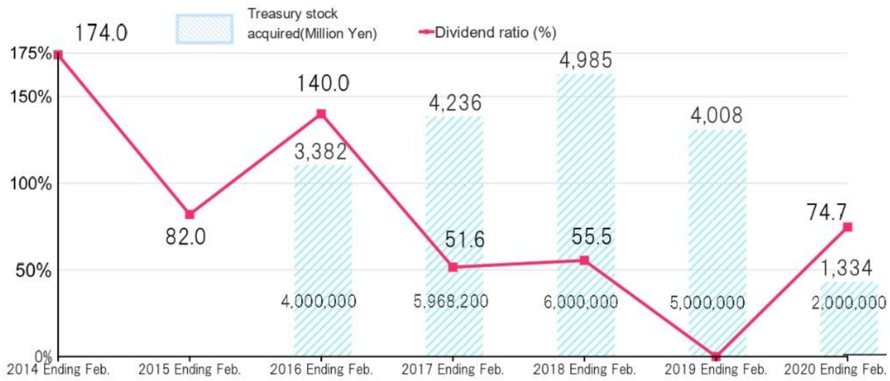
Page 16 shows our CSR activities. We have been continually tackling these since last year. I think that the biggest thing is not to unnecessarily make items or carry items. First, we will strive to ensure that inventory is kept to a minimum and that we sell at full price, not leaving any surplus. If, despite these efforts, anything is left, we will not throw anything away.

In addition, we will switch all plastic bags, most of which are paper in our case, and paper shopping bags to environmentally-friendly ones. We will complete this transition during this fiscal year.

Regarding another issue that is unique to our industry, we will try to recycle plastic hangers for stores, aiming to recycle about half of them by the end of this fiscal year.

Dividend Policy

- <u>We will disclose dividend payment during the current term as soon as we can reasonably estimate.</u>
- We will continue to implement the acquisition of treasury shares in a flexible manner.



- Regarding treasury shares

Date	Number of shares	Content
1/31/2018	10,000,000	Disposition by cancellation
6/30/2020	*8,000,000 - 10,000,000	Disposition by cancellation

*8 million of the treasury shares currently owned and all of the treasury shares currently being acquired

TSI HOLDINGS

This is the final page, page 17. It shows our policy of premium redemption to shareholders. As for the previous fiscal year, we will pay dividends as planned. However, as for the current fiscal year, we would like to withhold an announcement of dividend estimation, because it is extremely difficult to forecast the funds for the dividends.At present, we have negotiated with financial institutions and taken other such steps to ensure liquidity so that we can continue to operate, even if sales aren't generated over a long period. For the time being, there are no financing concerns.

That concludes my explanation.

[END]

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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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