



TSI HOLDINGS

TSI HOLDINGS CO., LTD.

Q1 Financial Results Briefing for the Fiscal Year Ending February 2021

July 3, 2020

Event Summary

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Question & Answer

Moderator: Now, let us move on to the question and answer session.

Here is the first question: What is the ideal image of the apparel business that TSI considers again, from a variety of perspectives, such as season dividing, sales period, and percentage of actual EC stores? Next, how can you reach the ideal if you compare the ideal image with the current situation of your Company? Mr. Uetadani will answer these two questions.

Uetadani: I, Uetadani would like to answer these questions.

I think there are many strategies depending on the Company. However, we do not want and should not want to waste our production and unnecessary sales. Basically, it is ideal to make only the amount required by the customer and sell it at a fixed price to not pursue the quantity. Not only do I think it is ideal, but I really want to do so. That is the target set in the medium-term plan that I mentioned earlier.

To this end, it is physically impossible to keep inventories in all stores so that they are not out of stock. Therefore, I think it is best to sell these products while using e-commerce well, integrating digital and real items, and recovering inventories. That is why 50% digitization is our way of thinking about that channel structure.

Digital spaces are likely to be extremely easy to compare prices, and I believe that a brand business that can survive in such a situation is appropriate not for a brand that is purchased by comparing prices with other brands, but rather for a brand that narrows down people of interest and provides services thoroughly to those people.

Because the brand is strong and the range of the customer is narrow, the customer rate is high, and selling at full price in both real and digital stores. Selling at full price means that customers do not lose money when and where they buy our products.

If customers buy products too early, they might lose money. If customers wait to buy products, they might make a profit. Or, if customers buy products at a different channel, they could buy them cheaper. I think such things would make customers extremely uncomfortable, so I would like to make it a transparent sales method in which customers won't lose money no matter when and where they may buy it.

This means digitization, focusing only on those that have enhanced brand power, and conversely, that customers cannot be forced to expand and pursue. So, rather than focusing on the domestic market, this means attracting customers who like these tastes from around the world. Globalization, particularly our group strategy, will result in significantly lower production volumes. However, if we sell at fixed prices without leaving any waste, we will not have to make it inexpensively at low cost and sell it to customers with high markups. In other words, we will be able to provide high-cost products to customers.

That is the ideal, not just the ideal of a distant future, but I would like to carry this out within three years.

Moderator: Mr. Isogimi, are you okay with the content of the answers to these questions? If it is something you would like to hear additionally or a slightly different point of view, I would appreciate it if you could give me a supplement verbally.

Isogimi: Thank you. I'm Isogimi from WWD. I'm sorry, but I heard that the Margaret Howell brand has already discontinued this summer's sale. Is this exactly the first step?

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Uetadani: Thank you for pointing it out. I am sorry. I forgot to tell you about the gap with the current situation. Margaret Howell brand will not have a sale on SS products this fiscal year. Those that can be sold clean will be brought in fall or the next SS season. Therefore, we have decided not to sell all of our products at a sale price. Margaret Howell will probably be the first brand among us to achieve a ratio of proper price sales of 80% or more in the short term.

This is followed by the decrease of bargain sales at the stores of ADORE held by SANERI-INTERNATIONAL CO., LTD. and PEARLY GATES. Therefore, the current situation is that we are shifting from areas where the brand power is high.

Isogimi: I think the problem with this sale is that it is a very new and old problem in the industry, or that it has been said for many years. Due to COVID-19, I think there's a part of it that's really necessary to change. What do you think there was a problem with the fact that the industry as a whole had to change, while thinking it had to change?

Uetadani: There were a number of times some developers tried to put the bargain sale back and forth, but after all, the bargain sale continued, so it was not possible to do so until we had a sale like other shops. Maybe it's the best chance this time.

Some developers do not hold sales throughout the entire building. It is decided by each company and tenants, so I think that this will not be done by the entire company, the brand, or the industry as a whole, but by each brand.

That's the same thing, and it's the season. It is doubtful to sell coats in mid-summer or no-sleeve in mid-winter. This has been raised by collection brands as well as by our mid-price. On the other hand, it is not possible to stop using the product in a cycle that is far from actual demand. We believe this is the case. As an industry, for example, we should be able to decide what we should do in a lump sum, but rather than expect it, we have started to talk about moving in that direction on our own, and to bring it as much as possible with the people of retail facilities, we will establish an acceptable management system.

Isogimi: Thank you very much.

Uetadani: Thank you.

Moderator: Thank you very much. Now let me move on to the next question. It is about the progress of the current summer sales season. Unfortunately, the monthly numbers for June are not yet available, so the latest figures for the fix are not available. Please provide quantitative and qualitative information and answers to the questionnaire about the differences from the previous year.

Then, the other is the situation of sales after the winter by curbing purchases in the second half and then raising the proportion of proper sales. Please answer these two questions together.

Uetadani: Thank you for your question. The current numbers are not bad. However, as I mentioned earlier, the reason why sales appear to be good is that we have entered the period of bargain sale last year. For example, in the first half of June, most brands saw sales jump compared to the previous year as they did not have bargain sales last year but did some sales this year.

Therefore, the fact that sales are higher than last year or compared to the plan does not always mean to be good. By taking this into consideration, it is the current situation that sales have risen at the level that we have not left large stocks.

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There is a great difference between brands, and, as I just said, sales of golf-related items such as PEARLY GATES have exceeded 100% even without any bargain sales at all.

On the other hand, it is good to say that ARPEGE Co., Ltd., which has brands such as Apuweiser-riche originally had very short production cycles and delivery times, and were trying to shorten the time before the current COVID-19 crisis. Since we switched to selling out and not carry over, and not holding bargain sales at the store, the damage is the least and there are no products to be sold at a sale price at present, so there are some cases where we are losing net sales, but the stocks are extremely low.

Because of the above, it is difficult to determine the level of sales alone. This is because we are trying to sell spring products that we cannot carry over to this time, and we are trying to sell those brands in a way that would not damage the brand. Therefore, we are doing the utmost in this balance. At this point, we expect that we will be able to make sure that we will not be able to leave inventory that will not be recovered when spring and summer are over.

Regarding the second half of the fiscal year, as I mentioned earlier, we have been restraining our procurement and expect a warm winter to occur for two consecutive years. By not pursuing such sales too much, we will sell our products at full price, and I think the bargain sales will probably be reduced as a result.

However, I think it will depend on the second crisis of COVID-19 and what the market is doing, so we are moving forward with the downsizing of sales because inventories and purchasing are conservative and there is no way to do so even if there is a missed sale. This is all.

Kawano: I'm Kawano. Thank you very much.

In the industry as well, if we are to resolve this problem of excess inventory, what will happen in Japan in the future, for example, of an off-price business that is common in the US? I think it may be a trend in terms of future inventory management or consumption. What is Mr. Uetadani's view about that area?

Uetadani: The US is certainly in an extremely strong condition, including off-price and discount business. I think this business category will remain to some extent. There are many brands that have limited ability to conduct an off-price business for each outlet-type brand, and I think that the store format, which is said to be a select shop that focuses on high brands and specialty products, will probably be able to compete in the outlet as a standard and regular member.

At mid-price like ours, it's a little hard to tell about how long products will be able to sell as a final price in an outlet. We are able to compete in outlet stores where the brand is strong, so I think it's good for Margaret Howell and for sports-related brands.

Outside of that, we are not currently thinking about having great expectations for the off-price business or trying to do it by ourselves. Rather, our strategy is to make sure that we do not produce as much as we need to shift to off-price. Of course, it's better than throwing it away, so there is a possibility of using such a place, but basically, rather than relying on it, we are thinking about making sure that we don't make products that need to be put around there.

On the market as a whole, I wonder about this in Japan. After the Lehman crisis, e-commerce flash sales websites grew around the world, and eventually settled down while changing business formats. Although demand may temporarily emerge, I think we plan to move in the direction of ensuring that all brands do not produce unnecessary products, so I do not think that the off-price business, for example, in Japan is a market that will grow steadily over the medium- to long-term. This is my view and that is all.

Kawano: Thank you very much.

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Moderator: I would like to go to the next question.

These are the questions asked by Mr. Kanzaki of Tshanshimbunsha Co., Ltd. The first question is about the status of efforts by sales representatives during the closure of stores, and the second question is about the ETRÉ TOKYO that we announced yesterday. The questioner would like to know the reason for this business transfer. We are pleased to answer the question from Mr. Uetadani.

Uetadani: Thank you for your questions.

Regarding the activities of staff while stores are closed, everyone, including other companies, as well as our brands, is working very hard. All brands were proactive in coordinating themselves from the stores and sending out videos and still images.

In this context, we have seen a variety of celebrities who unexpectedly disseminate such content. Especially among our sales staff, we are seeing people with such talents, and I think that this was an incentive for us to become digital sales representatives who can conduct digital marketing and digital design, including this.

In addition to the new ways, such as so-called social networking services and Instagram-live services, they're still solid. They've used the traditional ways and they've worked fairly carefully to increase the frequency of content updates on their websites and to increase the number of email magazines they delivered.

As a result, it was effective for customers who viewed the website and registered email magazines, and I understand that these brands were quite good for customers to return when the stores resumed. In the future, we intend to continue such digital dissemination, including store staff and headquarters divisions.

Regarding the form of ETRÉ TOKYO acquisitions, we concluded it was the best for us that assignment will be conducted by business division, not by company in order to separate business and people that remain in GREE and businesses and people that we wish to retain. Although we did not insist on the form, as a result, the most important thing was to smoothly bring the team into our group, so we decided to create a new company and take the form of a business transfer. This is all.

Kanzaki: Thank you very much.

Uetadani: Thank you.

Moderator: Let me move on to the next question. This is about the ratio of proper price sales. The questioner would like to know the part of this goal, the degree of improvement, and the reason for the plan to focus on the production of autumn and winter products to about 70%.

Uetadani: Thank you for your question. As for the ratio of proper price sales, in fact, the method of measuring consumption rates differs depending on the company, and it is not possible to see what the company as a whole had a proper consumption rate and what percentage in this quarter was. It is said that about two-thirds of the consumption rate or around the 60% level because there is no unification yet.

I think there are a few points in the impact on gross profit, but I am making trial calculations based on that model. A single business format can be created mechanically, but there are considerable differences among brands, so we are estimating the composition of the figures. It is not hidden, but I think there will be a substantial positive impact on gross profit.

The next is the purchase in the second half of the fiscal year. This is better 80% or 90%, not 70%. Actually, it cannot be predicted. There are many ways to make predictions, but I would definitely like to avoid having to stock more and let them go again because I think I might be back.

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Especially, it's heavy clothing. We have decided to prevent the missed sale of heavy clothing that can be controlled to a certain extent. Therefore, we understand that the figures are difficult, but we have reduced the base to 70% because of the harsh figures.

There are, of course, items that can be purchased in a short period of time, but some are purchased ahead of schedule or stopped as fabric. If the circumstances allow, we are thinking of increasing production within the time frame, but the opposite is impossible. On the assumption of 80% and 90%, it is impossible to divide it by 70%, so we have been quite disciplined with winters for the past two years. This is a good opportunity, so we have a thorough stock, and we are now testing the power of the store, but we have to win it, so we set 70% of the price on the basis of our knowledge. This is all.

Sumi: Thank you.

Moderator: Let me move on to the next question. Regarding the ratio of proper price sales, which is a prerequisite, it is the same as the previous response.

Uetadani: Same as the previous one.

Moderator: Mr. Hayashi, could you let us know if you have any additional questions?

Hayashi: There are no additional questions. Thank you very much.

Moderator: Thank you. The next question is about the promotion of digitization. Mr. Uetadani will now answer about the role of real stores and how this will change.

Uetadani: I think the relationship with the sales floor will, of course, change. Customers sometimes buy items by e-commerce after looking them on the sales floor, and pick up items from the sales floor after looking them at e-commerce. Therefore, We have been talking first with the retail facility about what rate and rent will be agreed upon when e-commerce inventory is originally sold at the retail store from before COVID-19.

We think that anyone who buys at a store for some reason will have to sell e-commerce inventory at the store's checkout counter.

However, there are some duplication of costs, such as warehouse fees and shipping fees, so we are talking about offsetting them with rent, for example.

It goes without saying that the showrooms are simply converted to showrooms, and that it is not fair to say that the rate of rent is a single rent. When shopping occurs through a store, we need to talk about making good adjustments so that sales do not coincide with duplication of costs.

In addition, the digital customer service of the salespeople I mentioned earlier is still under negotiation, because some retail facilities are highly averse. I think we need to make some sort of arrangement regarding these matters as well.

Similarly, we have had commercial facilities understand that we do not keep any stock outstanding or unsold items, and we have begun to talk about a variety of things, including the terms and conditions of the contract, that we need to make changes at this time, so that we can provide services to customers in conjunction with e-commerce inventory.

Does that answer your question?

Honbashi: Yes. Thank you very much.

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Moderator: Let me move on to the next question. Are there any changes in consumer preferences after the termination of the emergency declaration? In that case, can we deal with inventory carryover? If not, what else are you thinking about? Please answer about this side.

Uetadani: There is a story that the number of room clothes will increase, but the most affected is the commuting demand.

The clothes for commuting are in a delicate zone. It's not something you really like and wear it to your liking, or something you wear to relax in and make things easier in the house. It is something in the middle. I feel that this part has quite disappeared like such a quasi-uniform.

On the other hand, even though it is said, for example, that staying home, not everyone really wears only room wear. The customers of our group have been bored with such a fairly plain style, and they wanted to wear very feminine clothing in their homes.

Perhaps, rather than wearing clothes for people, I think clothes which customers themselves want to wear will survive, albeit to a certain extent.

I think the return of a brand with a relatively strong brand character is close to that of us. It's a little half-hearted, like a uniform-like commuter uniform you're forced to wear, or an occasional dress for an entrance ceremony or a graduation ceremony, and so on. The clothes which customers don't like very much, but are forced to wear will decrease. On the other hand, the clothes that they really like will be carefully selected, but I think they will survive properly.

Therefore, we also believe that we need to review our mid-range style items. The clothes except that customers really want to buy will not survive. Especially, if we think about our brand strategy, we will have only that kind of thing left behind.

The so-called uniform-like commuter uniform is still left aside whether it returns to 100% or not, but it will be rather casual or clothes that customers like, or clothes which are not the uniform type format that was decided in the old days, so I think it will break into casuals or customers' taste. Therefore, we intend to bring our resources and tastes to that end. This is all.

Moderator: Does that answer your question?

Ichikawa: Thank you very much.

Moderator: Last question. The question is about the criteria for growth areas and how to determine them.

Uetadani: The field of growth is certainly hard to judge. We invest in growth areas or we do not invest the areas where future prospects are unlikely anymore. It is a way to give up on early business that manages to avoid being unprofitable.

Since we said that we were not pursuing a sales volume, apart from whether or not we could grow rapidly, the needs will remain properly. Whether or not the overall pie could grow, we will take a certain business if we raise our brand power. It may be a world where we compete for the pie, but we are willing to bet on it.

That's the field of sports like golf, for example, and sports mixes like skateboarding, which are part of the debate about functionality and part of what is said to be a lifestyle type. I don't think this will be reduced, at least, apart from whether it will be a big growth or not.

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It is a brand opened in department stores and that has a strong character like Margaret Howell. As for the clothes that are very feminine or very mode, even if such things are not going to be a huge market, there are customers who buy them because they like them, so we will invest there. I think it is about finding such fields one by one.

What must then be done is, after all, close to personalization. I believe that this is a growing area that make clothes to meet customers' orders and requests, even if ready-to-wear clothes are reduced, and I would like to work on this issue.

In B2B-type businesses, as they will be digitized, we will take the lead in digitization and consider businesses that will provide them to other companies.

In other words, we are seeing growth fields, so we need to focus our resources on areas where we are likely to be successful, even though we may not be able to compete with each other without a decline in the number of pies.

Moderator: Does this answer your question?

Since there seem to be no other questions, the briefing is behind schedule, and I'm sorry that we were part of the mistake. As a result of the above, we will conclude our financial results briefing. Thank you for today.

[END]

Document Notes

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