



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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	Shinichi Uetadani	Chief Executive Officer

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Presentation

Moderator: Good morning. Thank you for taking time despite your busy schedule today.

We will begin our financial results briefing for Q1, which we announced yesterday. First, we will give you a presentation from our President, Mr. Uetadani, for about 25 minutes, and then we will proceed to the question and answer session.

So, first of all, please listen to the explanation from President Uetadani.

1. Measures against the novel coronavirus (COVID-19)

- **Store:** March In addition to stay-at-home requests and shortening of business hours, an increasing number of stores were temporarily closed in the last weekend.
 - April 7 A state of emergency was declared for seven prefectures, including Tokyo.
 - ⇒ Many apparel stores, equivalent to about 60% of all such stores across the nation were temporarily closed.
 - April 16 The state of emergency was extended to the entire nation.
 - ⇒ Over 90% of apparel stores across the nation were temporarily closed.
 - May 14 The state of emergency was lifted for 39 prefectures.
 - ⇒ Stores started to reopen, mainly in Hiroshima and other prefectures in the western part of it in the third week of May, and in Nagoya and Osaka in the fourth week.
 - ⇒ About 60% of stores reopened by May 24.
 - May 25 The state of emergency was lifted for all prefectures.
 - ⇒ Stores in the Kanto region reopened in the last week of May.
 - May 31 About 80% of stores reopened, except for 200 stores, which were located in Marui, Parco and Lumine.
 - June 3 All our stores have reopened. (They still operate on shortened business hours.)
- **Production:** Delivery of Chinese products and other products was delayed in March and April.
- **Distribution:** After the state of emergency was declared, distribution warehouses were near capacity.
- **Whole company:** All employees were granted 29 special paid holidays (with a guarantee of 100% of wages)

Uetadani: Good morning. I'm very sorry to have kept you waiting for 10 minutes due to our mistake. Now, I would like to start the explanation in the live so as not to run overtime.

First of all, regarding the response to COVID-19. As you can see on the screen, we have basically closed our stores in response to requests from the government and local governments. More than half of the employees raised concerns. So we should issue the policy quickly not to make our stores or subsidiaries be anxious.

At the same time, as stated at the bottom of this section, we declared that we would compensate all employees for their special leave, or so-called compensation for holidays, before closing our stores. As a result, when the store resumed operations, I think it would have been good for everyone to smoothly return to the store.

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2. Consolidated Financial Highlights -Profit and Loss-

	Q1ST 2020 Ending Feb.		Q1ST 2021 Ending Feb.			
	Results	Composition Rate (%)	Results	Composition Rate (%)	Y/Y Change	Y/Y (%)
Net Sales	42,870	100.0	21,682	100.0	-21,187	50.6
Gross Profit	24,611	57.4	9,058	41.8	-15,553	36.8
SG&A Expenses	22,698	52.9	15,504	71.5	-7,194	68.3
SG&A Expenses(excl. Goodwill Amortization, Depreciation and Amortization)	21,358	49.8	14,545	67.1	-6,813	68.1
Goodwill Amortization	293	0.7	192	0.9	-101	65.6
Depreciation and Amortization	1,046	2.4	766	3.5	-280	73.2
Operating Income	1,913	4.5	-6,445	-29.7	-8,358	-
Ordinary Income	2,182	5.1	-6,094	-28.1	-8,276	-
Extraordinary Income	1,294	3.0	67	0.3	-1,226	5.2
Extraordinary Loss	39	0.1	3,320	15.3	3,280	8352.6
Profit Before Taxes	3,437	8.0	-9,346	-43.1	-12,784	-
Profit Attributable to Owners of Parent	2,473	5.8	-10,454	-48.2	-12,927	-
EBITDA ※	3,253	7.6	-5,486	-25.3	-8,739	-

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

The following is an overview of profit and loss. As can be seen here, we would like to see the YoY rate of change in net sales on the right-hand side, which is almost half, at 50.6%, compared to the previous fiscal year.

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3. Net Sales Per Channel

	Q1ST 2020 Ending Feb.		Q1ST 2021 Ending Feb.			
	Results (Million yen)	Composition Rate (%)	Results (Million yen)	Y/Y (%)	Composition Rate (%)	Composition Rate Y/Y Change
Department Stores	6,015	14.0	1,752	29.1	8.1	-5.9pt
Commercial Facilities(*1)	22,509	52.5	7,033	31.2	32.4	-20.1pt
In-house EC	2,157	5.0	3,683	170.7	17.0	+12.0pt
3rd party	5,790	13.5	5,498	95.0	25.4	+11.9pt
E-Commerce	7,948	18.5	9,181	115.5	42.3	+23.8pt
Overseas	2,180	5.1	1,207	55.4	5.6	+0.5pt
Others(*2)	4,216	9.8	2,508	59.5	11.6	+1.7pt
TOTAL	42,870	100.0	21,682	50.6	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.

The breakdown is described on the following page.

This is by channel, and the top row is department stores, followed by commercial facilities, as we say, the station buildings, and then the roadside stores. I would like to see this YoY change, the third column from the right. Department stores and commercial facilities account for nearly 30%. It may seem that the composition ratio is much lower than other companies in the industry, but basically, our brand composition is fairly urban-oriented, and many brands in Tokyo, which was the slowest to cancel the emergency declaration, have resulted in a decline in sales. I think this cannot be helped.

This is e-commerce under it. This is a breakdown, in-house websites, others, and third parties. Here it is written as total EC, e-commerce. E-commerce increased by 15.5%. While it can be said that growth has been smooth, it may seem that the growth has not been even more moderate. Dividing these websites into our own sites and others, our own websites increased by 70.7%, while third-party e-commerce malls did not grow and amounted to 95.0% of the previous fiscal year. This is because we have been focusing considerably on our own websites since last year, and in this period, many e-commerce malls have been more focused on bargain sales. We are also conducting sales to consume our inventory, but because we were not going to do any excessive discounts or excessive sales during this period, we didn't see much growth during this period.

Instead, at the present time, customers made purchases on our own websites, and the figures may seem to be moderate, but we think this would have been good for the Group as a whole. The result was 50.6%.

Returning to the previous page, sales were 50.6% due to this, but the gross profit below that figure was 36.8%, which fell more than sales. This was because of the previous infection in China. First, spring products produced in China were delayed. By the time they came in, Japan became self-restraining mode, and more and more stores were closed. As a result, the sales period for Spring products became very short.

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It seems to be inconsistent with the fact that we didn't offer any excessive discounts in the e-commerce I just mentioned, but we naturally do not keep our inventory in stock, and the warehouse nearly exceeds the capacity. Therefore, in the ordinary year, we will give almost no discounts in this period, but this year we give discounts. The result is that the gross profit was worse than the sales, depending on the brand.

Although SG&A expenses were 68.3% and variable costs were kept down, fixed costs remained. As a result, it was 68%, which was not proportional to sales.

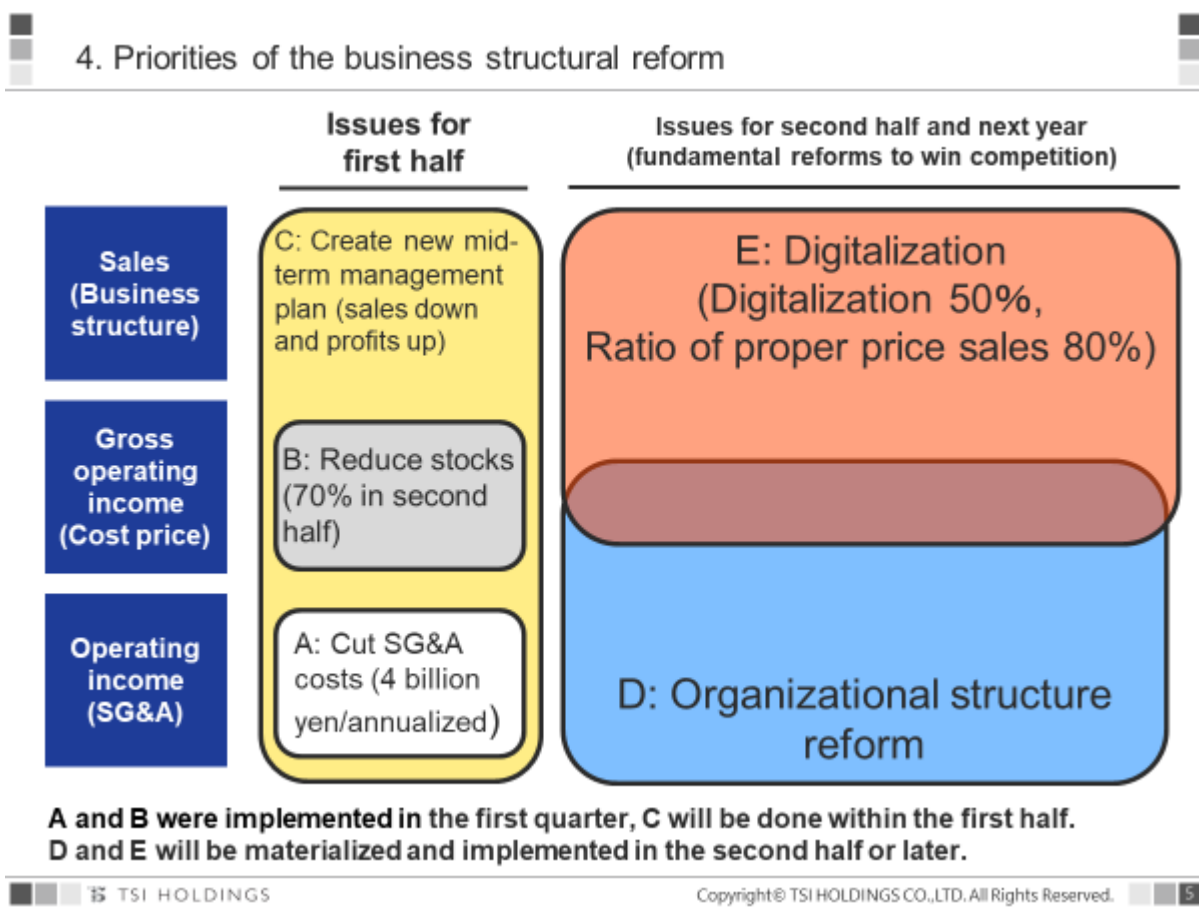
Of course, the declines were in advertising expenses, travel expenses, and sales-linked rent and commission for the sale. These were kept down.

In addition to this, compensation for absence from work and compensation for the entire amount of lost work for all employees have been made before, and any reduction or waiver of rent has been allocated to some extraordinary losses.

As a result, SG&A expenses amounted to 68%, and we regret that operating income was JPY1.9 billion last year, but this fiscal year we recorded a negative operating loss of JPY6.4 billion. I am very sorry.

Ordinary income was also similar at negative JPY6.1 billion, resulting in an enormous loss of approximately JPY10 billion with the addition of an extraordinary loss of approximately JPY3.3 billion due to the temporary suspension of operations and other extraordinary losses mentioned earlier. I'm really sorry.

So far, it is about the current situation in Q1, and I would also like to talk about what we have to do during this period and at the same time from now on.



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We divide what we are doing into five categories: A, B, C, D, and E, and draw up the fields in which we are working. The top row is for sales, middle for gross profit, bottom for operating profit, and SG&A expenses. The left side is something that we will conduct during the first half of the year. I believe that we must take this opportunity in the second half of the fiscal year on the right, and in some cases throughout the next fiscal year.

The first thing we did was to make a plan for cutting SG&A costs mentioned in A. Due to COVID-19, in the first half of the year, of course, we planned to be in red. We had already imagined at the beginning of the spring that the second half would not be able to return easily. Therefore, we have been working to reduce the break-even point by reducing JPY4 billion for the entire year, centering on fixed costs for all operating companies, holdings, and functional companies. Before Golden Week holidays, we are working on the goal of reducing the break-even point.

In the first half of the fiscal year, there are many items that will not be completed in time, but from the second half of the fiscal year this will not be around JPY4 billion, of course, but it will be effective. We began to do this.

Now, it is a reduction in purchasing. Of course, we have not made any complaints to our business partners, such as our unnecessary cancellations, so as far as we are able to do so, but especially in the latter half of the fiscal year, we have restrained our purchasing to 70% in principle. There are some brands that are in time, some are not in time, and there are many brands that can be carried over to the next season or Spring, and some brands that are not used well. We have managed to hold down the purchase of 70% in total.

However, the situation varies depending on the brands, for example, our sports and golf businesses are nearly returning, so we are selectively controlling the procurement of these brands by returning them to 80%, 90%, and 100%. Since this is an emergency situation, we reduced purchasing a little throughout the Company and the purchase of only some brand return to the normal level, if possible. In this way, we first did this A and B.

On that basis, we are currently in the process of formulating a new medium-term plan. Our original strategy, namely, full-price sales and brand enhancement, digitization, and overseas operations, remains unchanged. However, we are significantly changing our expectations. We are aiming to a business that decreases sales and increases profits, rather than increasing sales and profits, by focusing our investments on businesses intensively in order to increase profits. This is not an environment in which unnecessary goods are made or unnecessary store openings are made.

Therefore, we have switched to a policy of not pursuing scale, even though we make profits. We have been drafting this plan urgently, and we would like to announce it in some way during the first half of the fiscal year.

D and E on the right are the parts corresponding to the outline of this plan. First of all, we intend to promote digitization in earnest. Not in the near future, but in a very short period of time, about half of the sales, including 50% digitization, e-commerce, and omni-commerce, will come back and forth with digital.

We have been making a ratio of proper price sales our most important KPI since the past, and we are aiming that it will be over 80%, and it means we will make only products that can be sold at a regular cost. In this way, we aim to achieve significant digitalization by switching from production to sales.

In order to achieve this, indirect departments must be small so that their operations will work. For this reason, we intend to carry out organizational structural reforms quite boldly. This is not only a matter of course, but we will review the current system of a wholly owned spin-off company on a zero basis, such as integrating existing organizations or separately assigning functions that have been staggered across the group, and also we will consider the contents.

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As many companies say, this time's telework has resulted in a considerable amount of wasteful work in our Company, and we are trying to use this time to promote digitization, not only in management and indirect work, but also in the work of designing our clothes and creating patterns, so-called "DX." We are currently working to create a workflow that advances digitization and standardization, and really specializes only in creative work, and to achieve this on a zero-based basis without sanctuary, including corporate restructuring according to the organization.

We will formulate and announce a medium-term plan based on these results during the first half of the fiscal year. I wasn't just waiting, but I'm preparing for it during this period.

5. Progress in key issues for this year

Basic Policy

(1) Overhauling the business structure

(2) Carefully selecting prospective businesses and making investment

- Organizational restructuring
 - Business optimization: Launching a company-wide structural reform project to increase profitability
- Reforming the earnings structure
 - Cutting SG&A costs (¥4 billion/annualized), starting the stock reduction project (70% in the second half)
- Carefully selecting prospective businesses
 - Acquisition of shares of Efuego Corp. (From March 31, 2020)
 - Acquisition of the "ETRÉ TOKYO" business (August 1, 2020)
 - Establishment of the D2C (direct-to-consumer) platform
 - "Ping Apparel" store opened in the Odakyu Halc department store. (May 30, 2020)
 - Omni app tool "HERO®" was introduced to allow sales staff to provide services for online shoppers in real time. The service started at five "Laline" stores on June 4.
 - Decision to withdraw from the "Natural Beauty" and Hong Kong business (TSI ASIA LIMITED).

I would like to introduce some of the specific measures that have already been taken.

At the beginning of the fiscal year, regardless of whether or not there is a shock to COVID-19, our business structure is close to the two points described above. We will carefully select businesses that will survive in the midst of digitalization and globalization, and invest in those businesses, keeping the high ratio of proper price sales described above, and then revise our business structure on a zero basis as a result.

As for the two main points of organizational restructuring and reforming the earnings structure, I explained this earlier. We have already formed a project team with a focus on our next generation, rather than our existing generation, and have begun a zero-based design.

There are a number of things that have already been implemented and started at the present time by carefully selecting businesses with future potential at the bottom point. We acquired shares in Efuego Corp. It's written in the top circle, and it's a snowboard and skateboard e-commerce firm called Tactics, a digital native company in the US. We acquired this company.

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Skateboards, snowboards, and the communities surrounding these areas are built in digital spaces, and they have been a very long-standing team that can capture customers and do business there. During the lockdown in the US they have grown by more than 200%.

The first reason for acquiring this company is that there is a highly skilled digital team, so it's a global whole, including business in the US and Japan. This team is entrusted with our digital division, HUF, which now has another major operation in the US, to the team of this Tactics company.

We cannot even begin to compare our company to Walmart, but Walmart bought an e-commerce firm called Jet.com, and the team is now heading the whole of Walmart's digital, and the digital strategy is very successful. I'm thinking about something similar to that.

This team has begun to lead our US digital marketing and now digitization. In the future, I would like to make use of them in other countries as well. One of these is the digital-related sector.

Next, the second ETRÉ TOKYO is the D2C brand. This brand isn't really a big one, but it's a D2C-style brand that sells almost 100% of products that they make by communicating with their customers in full digital.

This team is also a very good team, and we intend to use this platform to expand the D2C-type business, not just the brands they are doing, but also from now on. The contract has already been completed, and we are preparing to take over the business in August.

Next, the golf business is performing well, there is a gear called PING, and we have started the apparel of the US golf club brand.

Next, we began to digitize our salespeople and introduce tools for our salespeople to serve customers online. The following pages describe this process in detail.

At the bottom, we decided to withdraw from the Natural Beauty department store brand, which has the longest history and high name recognition.

At the same time, we have decided to withdraw from the Hong Kong business because we believe it is difficult to continue to invest in the current situation, not just in COVID-19, but also in the issue with China as an example. We are taking these actions one by one.

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6. Progress in key issues for this year: Digital strategy

Laline JAPAN, which deals in cosmetics products, introduced an omni app tool "HERO®" to allow sales staff at brick-and-mortar stores to provide services for e-commerce customers in real time.

Purchase rate is 10 times the size of ordinary e-commerce. Average customer spending is 130%.

Introduced on June 4, the new service seems to have made a good start.

- 291 cases have been handled (as of June 30)
- Average spending 7,466 yen (110% of the ordinary e-commerce)
- Conversion (purchase rate after chatting) rate: 11.5%
- Average rating: 4.7 out of 5.0

What is "HERO®" ?

Conversation app that uses text messages, chatting and video calls to connect brick-and-mortar stores and online shoppers.

Participating stores



Sapporo Paseo store
Takashimaya Gate Tower Mall store
Yurakucho Marui store
Lumine Est store
LUCUA 1100 store



"Live commerce" is a major function that provides a seamless service of an actual store and e-commerce.

Utilizing the customer service skills of the sales staff, which is the Company Group's strength, for e-commerce, we can offer a customer service experience that integrates a brick-and-mortar store and e-commerce.

About future developments

The service will be simultaneously expanded to the apparel business, such as "Pearly Gates" and "Margaret Howell".

This page provides a brief explanation of the digital customer service.

As they have been introduced in the media, this is to allow the sales staff to provide services for e-commerce customers in real time by using chat and other functions: "Please use this product when you are like this." It looks like this, but in fact, it is like this. This is a system where you can experience things like having a conversation in a real shop digitally.

As it is still a little short, we need to verify the figures in the future, but as a result of doing this, conversion rate, or purchase rate, that means the percentage of customers who come to see products and ultimately buy them is 11.5%. In the conventional e-commerce, the rate was about 1%, which is more than 10 times higher than the rate depending on the approach taken. It's a little short, so it really does not matter whether it goes 10 times, but today, as a feel, it's a result that customers can buy the product if we provide good customer service on the digital.

Then, the unit price will not decline, and they will be able to buy the products as a set. Moreover, by doing this with a real salesperson who is a professional in customer service, they themselves can become service persons, where they are digital hybrids, and the essence is that they can become service persons.

This was first introduced by a cosmetics company called Laline JAPAN. In the future, we will expand this tool to other apparel businesses such as PEARLY GATES and Margaret Howell.

This is a tool for in-store sales staff to engage in digital customer service. In addition to this, several brands have begun introducing a different web customer service solution called "Sorairo," in which sales staff and former sales personnel specialize in digital customer service while making the service a contact center.

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We will introduce a brand with contact centers centered on Sorairo and promote the digitalization of stores and sales during the fiscal year under review.

7. Plan for this fiscal year

We plan to achieve net sales of 56.5 billion Yen (69.0% Y/Y) and operating income of -13.5 billion Yen (- Y/Y) in 1st Half.

	Unit: Million Yen		
	FY Ending Feb. 2020	1st Half FY Ending Feb. 2021	Y/Y (%)
Net Sales	81,847	56,500	69.0
Operating Income	-164	-13,500	-
Ordinary Income	769	-12,700	-
Profit Attributable to Owners of Parent	1,053	-16,200	-

■ Preconditions of the plan

We do not assume a second wave of the coronavirus. We presume that the market conditions will slowly recover to a certain extent.

Due to the impacts of COVID-19, a proper and reasonable calculation of earnings forecast in 2nd half is difficult and we force to modify 2nd half plan.

Therefore, the consolidated earnings estimate in 2nd half will not be announced at this time.

■ Dividends for this year

We plan not to pay dividends for this year because of the unprecedented situation.

■ Treasury shares

We acquired 2 million shares from March 12, 2020 through June 12, 2020.

We cancelled 10 million shares on June 30, 2020. We will not implement it for a while.

■ Funds

In addition to the usual credit line, we secured a borrowing facility of 30 billion yen from a major partner bank.

Next, we are forecasting for the current fiscal year. We were trying to get a full-year forecast, but we couldn't get it out. I am very sorry. At present, we are reducing our procurement in the second half, reducing costs, and preparing products with shorter lead times as flexibly as possible. However, we are first preparing a forecast for the first half of the fiscal year.

As stated here, we expect to post an operating loss of minus JPY13.5 billion and an enormous deficit.

As the assumptions are described here, we do not assume the second wave of COVID-19. We do not expect to return to the original forecast, but we do not expect that something close to a complete lockdown will occur at this time.

On that premise, it is likely to return to approximately 80% and 90% of sales, including the current status. In the first half of the year, we assumed it on the premise after opening the stores.

The other is that the profit is largely diminished in Q1 of the fiscal year, but for our brands, especially those with a high customer profile and a strong brand power, customers can continue to buy them. Instead of forcing them to sell spring products that they have not been able to put in the stores, we sell them in autumn, for example, if they can sell them in Autumn. Then, we plan to sell the items that can be put around next Spring clearly by turning them around next Spring. These products will be written down in the current fiscal year and carried over to the next season.

This is the reason why gross profit declined in Q1. However, for spring items that were not sold out during the first half, we once wrote down the value of those items that we carry over, and this has resulted in

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considerable damage to gross profit. This means that we will not postpone, so we have incorporated this enormous amount into our plan for the first half of the fiscal year.

In addition, The Company has decided not to pay dividends or repurchase treasury stock for the current fiscal year in the future. Globally as well, there are a number of organizations that have set out to forgo such a policy, but we would like to forgo it as we have posted such a huge deficit only in the first half of the fiscal year.

Even if the amount of funds deteriorates significantly from our current expectations, we still have sufficient funds. We have secured a borrowing limit of JPY30 billion, in addition to the regular credit line, and we have secured funds that will allow us to carry over even if there is a period in which we have almost no sales, so it is safe to worry about this. We must keep a strict watch on it. Rather, during this period, we will focus on the major transformation of our business structure into a digital format.

These are the forecasts for the first half of the fiscal year.

8. About CSR measures

CSR Basic Policy

Under our corporate philosophy, "We create value that shines the hearts of people through fashion and share the happiness of living tomorrow together with society," our Company Group will create a sustainable future society with all stakeholders through business activities.

<p style="background-color: #0070C0; color: white; padding: 2px; text-align: center;">Producing medical gowns at our plants</p>  <p style="font-size: small;">About 2 million gowns to be produced at TSI Sewing (Yonezawa, Miyazaki) by October</p>	<p style="background-color: #0070C0; color: white; padding: 2px; text-align: center;">Donating clothes to medical workers</p>  <p style="font-size: small;">Medical workers who have received our assistance</p> <p style="font-size: small;">About 8,000 clothing products were donated to medical workers via International Medical Volunteers Japan Heart.</p>
<p style="background-color: #0070C0; color: white; padding: 2px; text-align: center;">Producing washable masks</p>  <p style="font-size: small;">About 50,000 washable masks were produced for employees and local residents at the above plants.</p>	<p style="background-color: #0070C0; color: white; padding: 2px; text-align: center;">Free hand cream for medical workers</p>  <p style="font-size: small;">Laline JAPAN, which deals in cosmetics products, offered free hand cream for all medical workers fighting COVID-19.</p>

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Lastly, I would like to talk about our CSR initiatives.

Of course, we are making every effort to avoid waste and to switch to materials that have a low environmental impact, as we have already mentioned, but I would like to introduce some of the things we have done in this fiscal year, particularly from this perspective.

One of them is disposable gowns for medical use. We are also talking to our Yonezawa and Miyazaki plants, as well as the nearby cooperative factories we usually work with, and are planning to produce approximately two million medical gowns by October.

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Our plant employees are also very motivated to contribute to society, and their productivity is rising tremendously.

In this case, we received orders directly from Ministry of Economy, Trade and Industry and Ministry of Health, Labour and Welfare at an early stage, and this uses special materials. A factory management company called TSI Sewing, which is purchased directly from a manufacturer of materials that normally has a transaction with us, has taken the form of delivering directly to the government. We are proud that since there is no intervention from various vendors, the prices are low and we can deliver the products speedily. We would like to continue this as long as we have requests.

Please see the right side.

Through Japan Heart, a non-profit organization, we provided our clothing to healthcare professionals. It is natural that they need gowns and uniforms for medical use, but we heard that anyone working in a high-risk infection location must replace all clothing under the gown every day. This was very difficult. We would like medical workers to wear their favorite clothes from their favorite brand in a comfortable way and to provide them, and they are really pleased. I would like to continue these activities in the future.

Then the lower left is about masks. We produce and distribute fabric masks to our employees, suppliers, and local residents of our plants, including distribution centers.

In Laline JAPAN just described, we provide hand creams to medical workers. There is a variety of things that we can do.

That is all for my explanation.

[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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