TSI HOLDINGS

TSI HOLDINGS CO., LTD.

Q2 Financial Results Briefing for the Fiscal Year Ending February 2021

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	Shinichi Uetadani	Chief Executive Officer
	Masaaki Oishi	Director
	Mitsuru Naito	Executive Officer, General Manager Finance & Accounting Dept.
	Kohei Yamada	Manager, Corporate Communications & Investor Relations Office

Question & Answer

Yamada: I would like to move on to question and answer session from now on. In addition to the Chief Executive Officer Uetadani, Director, Oishi, and Naito, Executive Officer, General Manager, Finance and Accounting Department, will respond to the questions. Please take this opportunity.

The first question. Please tell us about specific initiatives related to the integration of one company, including a review of the supply chain and production and logistics. Also, how much is your purchase of next spring and summer items planned to increase or decrease compared to the previous year?

Uetadani: Good morning. Thank you for your question.

First of all, regarding the integration of one company, the biggest thing here is not to integrate the company itself, but to integrate several important functions across the Group, as you have said.

In the supply chain, we will first advance the integration of logistics. In our case, there is the individuality of the brand, so we will unify the contact points, but at this stage we will not aggressively integrate factories and production backgrounds. First, integrate logistics, including overseas operations. Then, we will start by unifying the contact points and improving efficiency.

In addition, although we have already started purchasing spring and summer items in the next fiscal year, we have considerably curbed our initial orders. Comparing to when, I think it is about 80% to 90% of previous fiscal year. However, this will also differ depending on the brand, so based on that, the timing will differ slightly from that of each individual brand, so we are considering increasing or decreasing it. We do not think that we will fully return to 100%. That is all.

Yamada: Mr. Kawano, was the current answer alright with you? If you have any additional questions, et cetera, I would appreciate it if you could comment on them.

Kawano: Kawano of the Nikkei Shimbun. Thank you very much. Please tell me a little bit more about the supply chain.

First of all, you are going ahead of logistics, but in the future will the functions themselves be integrated, including in areas like production, then will the profitability be improved?

Please tell us if you have a specific numerical target for the supply chain, for example, that it will be possible to reduce costs by about this amount on an actual value basis.

Uetadani: Thank you. Of course. Regarding production, we will soon be able to consolidate or work together.

However, since what fabric is truly made at which factory is very close to the individuality of the brand, we intend to do it carefully. If we are asking similar business partners to produce similar products, the benefits may come from integrating them. However, in our case, the most important strategy is to highlight the individuality of the brand. We will also collaborate where we can cooperate in production.

Then, regarding the numerical targets, especially because of the increase in ecommerce, we expect that logistics costs will not easily fall. We will make every effort to improve the efficiency, but I think it is 'break-even'.

Then, in terms of production procurement. We have begun to formulate this plan based on the assumption that the cost of procuring two to three points will be reduced. That is all.

Kawano: Thank you very much.

Yamada: Thank you. Now let me proceed to the next question.

The question is whether the holding company systems will continue as a result of the integration of one operating company. I would like Uetadani to answer to this question as well.

Uetadani: The main purpose of this project is to integrate operating companies and functional companies. As you have said, I think there are two ways to do this: to keep Holding as a pure holding company, or to swallow and consolidate operations with Holding as an operating holding company. We are currently at the stage of considering which is more beneficial for technical. This is all.

Yano: Yano of Senken Shimbun. Additional question, is that alright? As you are currently considering it, is it alright to understand that this will be announced in the section of the next medium-term policy, which you explained earlier?

Uetadani: Yes. At the stage of the medium-term plan, of course, we will clearly announce it, but we would like to announce at the time whether or not we decide to adopt the pure holding company format.

At the moment, rather than considering technical points, as I mentioned earlier, we are moving ahead with the integration of functions in the process. Once a specific organization or method of merger has been decided, I would like to announce it again.

Yano: Thank you.

Yamada: Is that all right with you? Thank you very much.

Now let me move on to the next question. Regarding digital native brands, especially what teams will plan and what will be KPIs? In addition, the expected landing for e-commerce sales and the e-commerce adoption rate in the current fiscal year. Uetadani will answer to this.

Uetadani: There are a variety of ideas for digital native brands, but simply selling them in e-commerce is not a digital native brand or D2C. Basically, there should be something that the manufacturer's keen commitment is first.

And the customers we are targeting are looking closer than the businesses based on street shops. What this means is that we do not make the products that our customers want more wastefully in anticipation. We have the same idea in terms of increasing the ratio of selling by regular price, as I mentioned in our overall KPI.

As for digital native brands, any brands may be the same. When there are specific customer needs, whether they have an environmental impact or a strong desire or dedication by the maker, it is not a store as a means, but the digital brand is the focus of ecommerce.

Of the D2C platforms, HYBES is a member of the D2C platforms that has quite a different DNA from the team that has other stores. For the time being, I would like to start in a slightly detached form. If we merge poorly, their good points will disappear, so we plan to make it into B team.

I think that KPI differs from brand to brand, but basically, is it centered on the selling with regular price, and then on the ratio of royal customers.

In addition, although the rate of e-commerce adoption in the current fiscal year has been growing considerably, since the end of last year, we are still in the process of aggregating, as some stores have been closed for some time.

Kanzaki: Kanzaki of Tsuhan Shimbun. Regarding the digital-native brand you mentioned earlier, what is HYBES concept that you mentioned before? As a difference from the existing brands with stores, for example, production backgrounds and promotions?

Uetadani: Regarding the brand of ETRE TOKYO, which HYBES handles. We have adopted a method in which designers and directors first disseminate it to potential customers, then revise it while watching the response, and then reduce it, including volume.

In other words, since we do not have a style of anticipating what is not originally in sight in terms of needs, we may call it a rather order-based production. Or we take the form of manufacturing that is like an intermediate between normal manufacturing and order-made production.

In addition to marketing, we have adopted a style of continuing to disseminate information almost every day and reflecting this feedback in our products. In this sense, we are directly targeting potential customers and finalizing our products while carrying out communicating with them.

Kanzaki: Basically, I think that any brand, not to mention raising brand awareness or promotion, is needed, but is it a must to create a character, something like that?

Uetadani: Our team, who originally have many Instagram followers, play a central role. With regard to the current ETRE TOKYO, they basically focus on digital, SNS dissemination and web-based dissemination. In addition, they convey our worldview at our stores. The fundamentals are centered on digital marketing.

However, we believe that our existing businesses will shift to a digital marketing. As I mentioned earlier, our digital marketing team is part of the digital team, and they take on research and development and investment, including SNS.

Kanzaki: I would like to confirm, but do you mean that the subsidiary basically launches or operates a digital native brand, and the digital team will follow up there as well?

Uetadani: It is a matrix organization. The digital team is in charge of each brand and operating company. However, the digital team belongs to the digital team of the entire group. That is how our organization operates in a way that is like going internally from there.

By consolidating functions for the integration of a single company, we will basically operate in a matrix-type manner.

Kanzaki: I see, thank you.

Yamada: I would like to move on to the following question. The questions about how to improve the allocation of human resources in the future, as well as how to develop and assign human resources in the future, including the evaluation standards of salespeople. Uetadani will answer to this question.

Uetadani: At this time, the personnel situation is difficult. But I would like to automate or outsource as much as possible for works which do not directly affect to so-called creative or service work.

We will not engage as much as possible in internal interactions or tasks. The idea is that our employees will work in creative and customer-oriented services.

It is not just a so-called management department-oriented indirect business, but also a way of making things. It is an image of automating operations that physically modify samples many times or even contact the factory by phone or fax.

We have been making considerable efforts to digitize not only head office divisions but also store sales staff. When we introduced a tool for customer service on the web, the purchase rate jumped 10 times and 20 times more.

In the future, we are switching to personnel who can do a hybrid customer service that enables sales staff and brick-and-mortar stores to introduce products. That enables them to communicate in digital spaces through coordination and other means.

Naturally, our evaluations are not only about how much was sold in our stores, but also about the digital publication and then the purchase based on it. This is all.

Participant: Thank you. I would like to ask one more question.

Regarding net sales, when you explained the medium-term outlook, there was no explanation of net sales.

You have been focusing on profits for some time, but I think that your brand has an annual sales scale of JPY20 billion to JPY30 billion. How much sales can you maintain in the domestic apparel market after this coronavirus in the medium term?

Uetadani: I do not think it can be said uniformly because there is a difference in the scope for returning, such as how to grow depending on the brand. Basically, if the brand is somewhat mature, we do not expect sales to grow. Not in the sense of extreme conditions this year, it falls far below normal conditions. I think it will shrink and be just right if it goes down. We were making sales through bargain sales. I think sales will fall if we produce only as much of the amount required by our customers and provide them with solid service. A brand that is somewhat mature when compared with the same conditions.

Therefore, we have not set a goal of maintaining the scale of sales at all this time.

Participant: Ok. Thank you very much.

Yamada: Is that all right with you? I would like to move on to the next question.

Regarding the plan of 80% of the sales with regular price rate, the current situation of this rate and the inventory related to coronavirus in the current fiscal year and how to handle this.

Uetadani will answer to this question.

Uetadani: I am sorry that I have always been asked this question and I cannot show you in the table.

Some brands have slightly different ways of counting, such as how they are handled. As I mentioned before, about 60% is the current ratio of sales by regular price.

Before coronavirus, about two-thirds, or 66% to 67%, of them were in good condition. However, in the future, we are thinking about what 80% means and that we will keep it at a level that does not assume that we will sell at the sale from the outset.

Regarding the question in the second half, it is about the current inventory. There are two points about whether we will not carry over to the next fiscal year.

Some brands stop bargain selling and sell for the coming season at a fixed price. This is one thing that we will carry over in a fair manner. Those brands are temporarily in stock. But if you look at the contents, they will be sold neatly next year at the professional carry and regular price, so I do not think there will be any problem.

Other brands, which have a strong trend and may not be carried over to the next fiscal year, were disposed of during the first half of the fiscal year. It is an outlet, including in stores. Certain brands are naturally required to be disposed of by outside off-price shops, et cetera.

However, I do not think of developing off-price stores or expanding outlets on my own. Our idea is that the focus is on the narrowed-down professional shop plus ecommerce.

Hayashi: Hayashi speaking, thank you very much. How do you attach the retail price with the idea of 80% of sales with regular price without expecting bargain sales? Is the original list price slightly lower than it is now? Please review that point.

Uetadani: Naturally, to increase the rate of sales with regular price is to stop providing customers with what is called a low-cost-ratio. So I think we will either lower the sales price or raise the cost-ratio while maintaining the sales price.

We do not expect to earn gross profit as a result of increasing the ratio of sales with regular price, so some brands may have a slight decrease in selling prices. In the case of one of these brands, of course, there are differences among the brands, but with respect to those brands that can do so, the selling price is maintained, and quality is enhanced. I think that there are somewhat more brands moving forward in the direction of raising costs.

Hayashi: Thank you very much.

Yamada: We will move on to the next question.

Regarding the break-even point, what is the ratio of variable and fixed costs among the JPY9 billion reduction, and the contents of JPY2 billion and JPY4 billion, if possible.

I think that it is difficult to say a little about the ratio of variable costs and fixed costs. Since in terms of store rent, most of the basic items are linked to sales. But in reality, they are treated like fixed costs in the form of a minimum guarantee. There are some areas that are difficult to classify as variable and fixed costs, as is generally said to be the case. I would like to give you an answer after taking that into consideration.

Uetadani: As Yamada mentioned now, variable and fixed costs cannot be simply divided by subject. However, I think the majority of what is described here are of a strong fixed cost nature. Therefore, in the sense of lowering the break-even point, I think it has a major emerging effect.

We are carrying out the task of solidifying and decomposing this, and then reversing it. However, in terms of the reduction I mentioned relatively, I think it will be effective in terms of fixed costs.

In the event of withdrawal from a store or withdrawal from a business, this will depend on where you go, but with regard to withdrawal from a business, of course, the personnel and rent involved are included.

However, for other items, the personnel cost is included in this personnel cost reduction, and other costs are included in the store exit cost so that there is no overlap. This is all.

Hoshiba: Hoshiba speaking, thank you. I understand about the second point. In the first point, if you are decomposing this change, you can have an image about the rate, for example 80% or 90% of the total, albeit at a fixed cost?

Uetadani: I think it is probably at such a level.

Hoshiba: Ok. Thank you very much.

Yamada: Well, let me move on to the next question. With regard to the outlook for extraordinary gains from the sale of assets, what do you expect in the second half of the fiscal year in terms of the portion of ordinary income and net income?

Oishi will answer this question first.

Oishi: Extraordinary gains from the sale of assets, et cetera. We are considering the sale of real estate and the sale of securities as the contents of the sale of assets.

Regarding the sale of real estate, is recorded about JPY16.5 billion as investment real estate, we are currently considering the subject of several properties within this side. In addition, we are progressing with securities as part of the reduction of policy-based investment stockholdings, which will be eligible for this.

We are in negotiations with the other party regarding the sale of real estate, and we are currently proceeding with discussions on when and to what extent we will sell any property.

Yamada: I would like to move on to the following question. Sumi from Tokai Tokyo Research Center asks, regarding the factors behind the JPY3 billion gap between the first half operating income plan and the actual results, and regarding the assumptions for the amount of investment in the future. He is asking about where there is still room for the cost structure to come in as a result of structural reforms.

Uetadani will answer to this question.

Uetadani: First of all, it was originally forecasted to be in the first half of the year, and this is a deviation in the results. Of course, we are looking hard, and the deficit at the sales stage has been shrinking, of course.

Another factor is that while some companies had decided to withdraw this time and have not yet announced all of them, there were some companies that had expected to withdraw to a certain extent in the first half of the fiscal year. But this factor was delayed until the second half, which is a big difference. The situation is that it will not change much over the full fiscal year.

Then, I think that the DX investment is billions of yen because all the investment will be DX, from the introduction of e-commerce to the stores from the so-called core system, and the accuracy is increased and is being finalized. We also intend to announce the specific investment amount in line with the next fiscal year target and the medium-term plan, but we plan to invest a larger amount in absolute terms than in the past.

The third question about restructuring, then, is where there is room for further cost reductions. I mentioned earlier that there is room to lower the break-even point by around JPY9 billion. In addition to this, there is room to improve the efficiency of internal operations even more if we consolidate and do DX clearly.

We are not reading that much now. We are reading the integration effect to some extent, but we plan to read the room for cost reduction by DX in the future. Therefore, I think there will be many different accounts. But in reality, there is still considerable room for growth in areas other than those I mentioned earlier in terms of room for reduction in SG&A expenses. This is all.

Yamada: As described in the document, the office space will be shrinking. We have not yet incorporated this into the amount of money, so we would like to announce it again when the project progresses on our end as well.

Is this answer alright?

Sumi: Yes, thank you.

Yamada: Mr. Kurihara from Tachibana Securities asks, in addition to the land sales in Shibuya, is it appropriate to understand that we are considering asset sales to the extent that we can secure a final surplus.

Oishi would also like to talk about this once again.

Oishi: The sale of real estate has been listed as a candidate for several properties, and although Shibuya has been decided almost entirely, we are currently in negotiations for other than the property in Shibuya.

In terms of monetary value, the sale of real estate is the main factor. But in addition to the sale of investment securities, we are able to respond flexibly to this situation. We are looking at the situation of extraordinary losses and looking for a landing point.

Kurihara: Thank you very much. Your answer is sufficient. Thank you very much.

Yamada: Thank you very much. Now let me move on to the next question, from Mochizuki at Merrill Lynch Japan Securities.

That is about the current trend in e-commerce sales, and whether the trends, characteristics, et cetera of e-commerce sales changed so far or not.

We have many types of brands, so the trends are different. Uetadani would like to answer your question.

Uetadani: As Yamada mentioned now, the brands differ considerably. The big tendency is that in our case we are also selling primarily products in regular price. So it is sales with regular price that the basics of ecommerce is also growing today.

Although there were occasions when we were conducting a sale, we were sometimes pointed out that the comparison with the previous year has not grown more than expected. But the sales ratio has declined, and in particular, sales of our own ecommerce are centered on sales with regular price.

Age range is surprisingly wide, and it is not the case that only young people will buy. Regardless of the brand, this is a situation in which customers purchase from high-priced brands to relatively moderate priced brands on the ecommerce regardless of age.

And, the ratio of loyal customers. More customers buy brands with high customer satisfaction on ecommerce, and our ecommerce as well. In this sense, ecommerce for brands with high customer satisfaction is relatively growing, mainly among sales with regular price. Age and gender do not have particularly large variations due to them.

Mochizuki: Thanks. By the way, I think there was a new trend that suddenly increased due to the coronavirus. Has the characteristics of the purchasers among them or the brands that are selling well changed?

Uetadani: The question of whether something has changed in particular because of the coronavirus, right? Up until coronavirus, at a relatively high price or coupon, particularly at a third party, or at a price. Although we are implementing a brand strategy, it has been largely the case that e-commerce sales have risen or fallen as a result of the conditions of other companies, the market, and the platformer.

Now, most of the brands are shifted to sell at our own e-commerce with regular price. I feel that we are shifting not only by external factors such as the coronavirus crisis, but also by our will to loyal customers and purchaser with regular price.

This is largely due to the impact of the coronavirus crisis, half of which we are willing to devote to, regardless of the price range or the age of the target. I feel that brands for young people can be sold through reservation a lot. Only royal customers manage to reserve and buy products, so it has accelerated the transition to loyal customers and the shift to sales with regular price.

Mochizuki: Thank you very much.

Yamada: Is that all right with you? All the questions were answered. It is already past eleven o'clock, so I would like to finish the financial briefing session now.

If you wish to apply for a one-on-one meeting, please contact the public relations department and we will handle it, so please feel free to contact us.

Now, we would like to conclude the Q2 financial results briefing. Thank you for today.

[END]

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