TSI HOLDINGS CO., LTD.

Q2 Financial Results Briefing for the Fiscal Year Ending February 2021

October 5, 2020

Event Summary

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Presentation

Yamada: Good morning. Thank you very much for taking time this early morning today. I would like to hold the financial briefing session for Q2, which I announced on Friday last week, in the form of a webinar.

First of all, there is a video that Uetadani created regarding a brief overview of the situation. We would like you to watch this video first, and then we would like to switch to a question and answer session on live as soon as we finish.

You can access the Powerpoint documents and such during the presentation. However, they can also be downloaded from our website, so please do so if you need them.

Now, Uetadani would like to commence the financial briefing session.

1. Consolidated Financial Highlights -Profit and Loss-

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Unit:Million Yen

	Cumulative Q2ND 2020 Ending Feb.		Cumulative Q2ND 2021 Ending Feb.					
	Results	Composition Rate (%)	Results	Composition Rate (%)	Y/Y Change	Y/Y (%)	Against Plan (Change)	Against Plan(%)
Net Sales	81,847	100.0	56,270	100.0	-25,576	68.8	▲229	99.6
Gross Profit	43,908	53.6	24,169	43.0	-19,739	55.0	-	-
SG&A Expenses	44,072	53.8	34,639	61.6	-9,433	78.6	-	-
SG&A Expenses(excl. Goodwill Amortization, Depreciation and Amortization)	41,426	50.6	32,507	57.8	-8,919	78.5	-	-
Goodwill Amortization	581	0.7	389	0.7	-192	66.9	-	-
Depreciation and Amortization	2,065	2.5	1,742	3.1	-322	84.4	-	-
Operating Income	-164	-0.2	-10,469	-18.6	-10,305	-	3,031	-
Ordinary Income	769	0.9	-9,642	-17.1	-10,412	-	3,057	-
Extraordinary Income	1,894	2.3	418	0.7	-1,475	22.1	-	-
Extraordinary Loss	372	0.5	4,014	7.1	3,641	1076.2	-	-
Profit Before Taxes	2,290	2.8	-13,237	-23.5	-15,528	-	-	-
Profit Attributable to Owners of Parent	1,053	1.3	-14,434	-25.7	-15,487	-	1,766	-
EBITDA ※	2,482	3.0	-8,337	-14.8	-10,820	-	-	-

Net Sales: Sales of stores in prime locations were tough due to shortened business hours and refrain from going out, though all our stores have reopened since this June.
Sales of e-commerce ongoingly increased 118.1% year-on-year.

Gross Profit ratio: Deterioration of discount rate (▲6pt), loss on valuation of inventory(▲2pt), Increase in discounted products etc.(▲2.6pt)

SG&A Expenses: In addition to reduction of variable costs, we tried to reduce fixed costs.

Extraordinary loss: Impairment loss of JPY1.4billion, loss of JPY2.4billion due to the temporary suspension of operations.

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Uetadani: Good morning. Thank you for your time today. We will start the TSI HOLDINGS financial briefing session for the first half of the fiscal year.

Please refer to page three. I will explain it from the profit and loss overview.

Net sales were approximately JPY56.3 billion, or negative 31.25% YoY. This was due to the fact that there was a period of store closures, as well as the continuation of extremely harsh sales conditions thereafter. Of course, ecommerce increased 18.14% YoY steadily throughout the first half of the fiscal year, but this was naturally not enough to offset the decline in brick-and-mortar stores.

The gross profit margin fell to 43.0%, which is 10.6% down from 53.6% in the previous fiscal year. In this regard, the discount rate deteriorated because we prioritized getting rid of all the spring clothes inventory. Since we rigorously recorded inventory valuation losses, we wrote down the value including those carried over to the next fiscal year, et cetera, which resulted in a decrease of 10.6%.

Of course, we worked hard to curb SG&A expenses, but we were unable to keep them down as much as we had in proportion to sales. As a result, we recorded a YoY decrease of 21.40%, resulting in a decreased operating income of approximately JPY10.5 billion, resulting in a decreased quarterly net income of approximately JPY14.4 billion.

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2. Net Sales Per Channel

	Cumulative Q2ND 2020 Ending Feb.		Cumulative Q2ND 2021 Ending Feb.			
	Results (Million yen)	Composition Rate (%)	Results (Million yen)	Y/Y (%)	Composition Rate (%)	Composition Rate Y/Y Change
Department Stores	10,841	13.2	5,107	47.1	9.1	-4.1pt
Commercial Facilities(*1)	41,968	51.3	22,768	54.3	40.5	-10.8pt
In-house EC	5,175	6.3	8,989	173.7	16.0	+9.7pt
3rd party	11,265	13.8	10,434	92.6	18.5	+4.7pt
E-Commerce	16,441	20.1	19,424	118.1	34.5	+14.4pt
Overseas	3,527	4.3	2,752	78.0	4.9	+0.6pt
Others(*2)	9,068	11.1	6,218	68.6	11.1	-
TOTAL	81,847	100.0	56,270	68.8	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, intercompany sales and non-apparel businesses of the group companies.

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Next, please refer to net sales by sales channel on page four. The trend value has not changed.

The E-commerce Business grew steadily, and this time there was a period in which brick-and-mortar stores were closed, so the composition ratio of e-commerce in a total sale increased to 34.5%.

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3. Brands Overview

Unit:Million Yen

		Cumulative Q2ND 2020 Ending Feb.			Cumulative Q2ND 2021 Ending Feb.			Y/Y	
		Sales	Composition Rate (%)	Gross Profit Ratio (%)	Sales	Composition Rate (%)	Gross Profit Ratio (%)	Sales (%)	Gross Profit Ratio (pt)
1.	nano・universe	12,130	14.8	45.1	8,004	14.2	36.1	66.0	-9.0
2.	NATURAL BEAUTY BASIC	7,868	9.6	59.0	5,066	9.0	43.1	64.4	-15.9
3.	PEARLY GATES	6,270	7.7	51.2	4,439	7.9	50.3	70.8	-0.9
4.	MARGARET HOWELL	6,887	8.4	57.5	3,509	6.2	43.4	51.0	-14.1
5.	AVIREX	3,764	4.6	61.4	2,359	4.2	55.4	62.7	-6.0
6.	STUSSY	2,520	3.1	70.7	2,049	3.6	62.9	81.3	-7.8
7.	UNDEFEATED	2,305	2.8	44.6	1,887	3.4	40.6	81.9	-4.0
8.	ROSE BUD	3,108	3.8	49.5	1,839	3.3	34.5	59.2	-15.0
9.	HUF	2,022	2.5	51.4	1,778	3.2	45.6	87.9	-5.8
10.	PROPORTION BODY DRESSING	1,763	2.2	53.2	1,453	2.6	51.6	82.4	-1.6
TOP10		48,641	59.4	53.3	32,388	57.6	44.5	66.6	-8.8
Other Brands		32,873	40.2	54.6	23,861	42.4	40.9	72.6	-13.7
Continuing Brands		81,514	99.6	53.8	56,249	100.0	42.9	69.0	-10.9
Closed Brands		333	0.4	13.7	21	0.0	69.7	6.3	+55.9
TOTAL		81,847	100.0	53.6	56,270	100.0	43.0	68.8	-10.6

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Next, I will explain the overview by brand. See page five.

As I mentioned earlier, we as a whole saw sales drop 31.2% YoY. The average value is a 10.6% drop in gross profit. I will explain some brands in comparison with this.

The fact that sales exceeded to 70% and 80% from the previous fiscal year indicates that we are performing well. PEARLY GATES is in fact the best. Net sales were 70.8% YoY. But after the stores were restored, customers returned and sales continued to exceed to 100% from the previous fiscal year, almost as planned. In addition, the brand is selling for full price, so there are virtually no gross profit damages. Although it has the characteristics of golf, it is a brand that is completely revived now by the solid return of customers who had favored this brand.

Other street brands, such as STUSSY and UNDEFEATED, are relatively strong. Despite the decrease in inbound tourists, sales are exceeding to 80% from the previous year's level. We have minimized the damage to our gross profit.

In addition, the 10th brand, PROPORTION BODY DRESSING, was a brand that had been struggling until last year. However, by returning to the product axis of returning to a loyal customer, we succeeded in changing our cost structure. As a result, sales were at about 82% YoY and gross profit was nearly 1%. I think this is an example of a steady recovery. Currently, similar trends are progressing.

On the other hand, if we look only at these figures, there are brands with very low sales or severe damage to gross profit. However, there are two factors for this.

The second brand, NATURAL BEAUTY BASIC and the eighth brand, ROSE BUD. had a similar trend.

First, since this brand emphasizes a trend, we prioritized the consumption of inventory. Based on the judgment that it would be better to get rid of this spring/summer product in the current fiscal year without carrying it over to autumn/winter or next fiscal year, and to bring new products to the next season. As a result, these two brands suffered a gross profit margin deterioration of 15.9% and 15.0%, which was more than 15%.

As I mentioned, however, this is a clean state of inventory by not carrying on negative legacies from the next fiscal year onward.

ROSE BUD's sales of 59.2% in the previous year, severe amid sluggish sales, was due to location characteristics. This is the result of our urban location, centered on the Tokyo metropolitan area. As you know, it was affected by the weakness of the central Tokyo metropolitan area compared to the suburbs.

However, as for this brand, it is a brand aiming at urban type and fashion sensitivity. So, I intend to somehow keep the cost down in this policy.

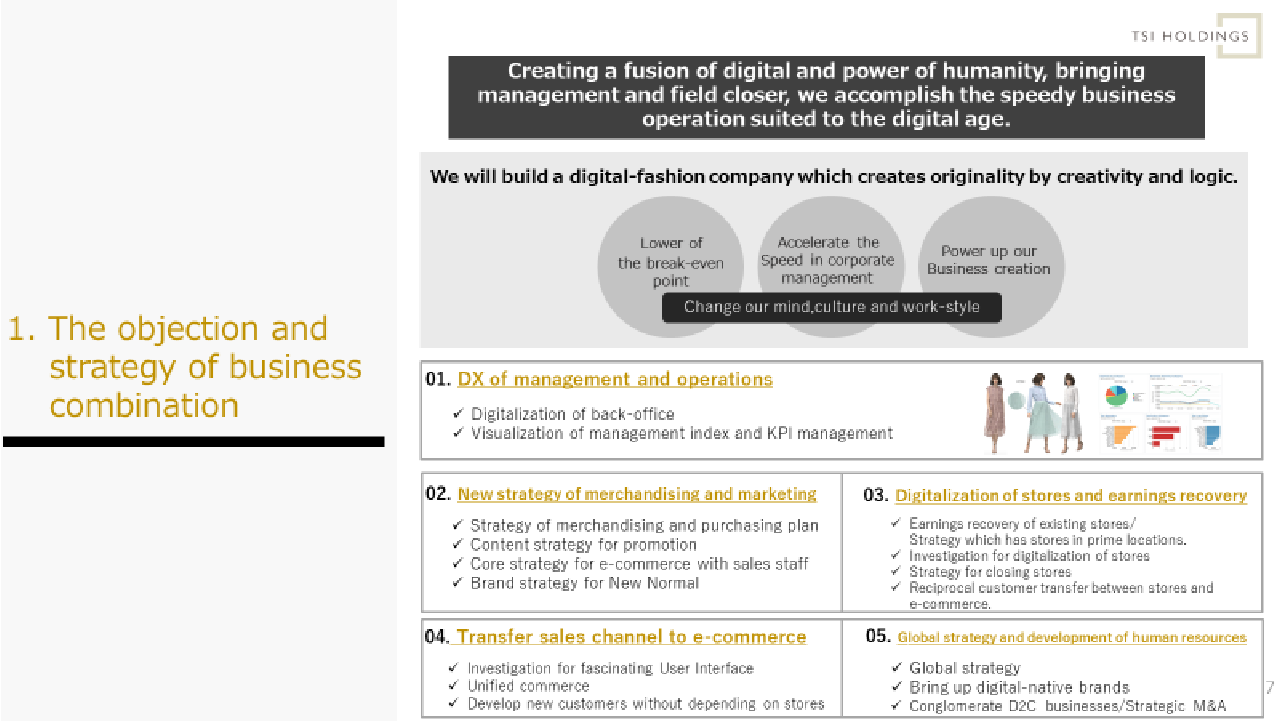
On the other hand, the fourth brand, MARGARET HOWELL, is the brand with a large drop in sales and gross profit.

Sales are 51% from the previous year and gross profit declined by 14.1% YoY, showing an extremely large decline. However, this was true opposite to NATURAL BEAUTY BASIC and ROSE BUD mentioned earlier. This was due to the fact that we stopped bargain sales. We do not do any in-store or ecommerce. We decided to carry over items that did not sell in this spring in autumn or next spring at the list price.

This is a brand that is highly loyal to customers, so we must follow the Group's strategy with regard to not doing any bargain sales. Everyone, including salespeople from the store, agreed to not to do bargain sales at all from this fiscal year. This is a brand that will continue selling at a list price. This is the result of our strategy to carry over to the second half and next fiscal year.

However, we have rigorously x every season, and as a result, gross profit was damaged first. The reason why sales are not appearing to rise is that this is because we did not make bargain sales although we were doing bargain sales up to last year. We did not make bargain sales in the place where other stores were doing bargain sales. Sales for customers have not dropped at all, but the situation is that we are losing sales.

This fiscal year looks tough in terms of numbers, but it is one of the soundest brands in terms of the content of the brand. We purposely carried products over to the next fiscal year and will sell them firmly at the list price.



Next, I will explain our medium-term strategy. See page seven.

Last month, we announced our policy of consolidating one company along with the announcement of structural reforms.

It is DX, digital transformation. Our objective continues to enhance the individuality of the brand. We will proceed thoroughly with digitization and, as described here, first lower the break-even point. From then on, we will increase the speed of management to what we have been doing in a discrete manner. Combining them in the future raises the ability to generate business. Aiming to do this, we will consolidate into one company.

Of course, we had been moving forward with digitization for some time, but the major purpose of this merger is to thoroughly transform ourselves into a digital fashion company.

Specifically, there are five major items on this side, but it is so-called work DX. This time, we have also downsized the workforce, and the reason behind this is that integrating all indirect operations into one company and digitizing them is an extremely important point.

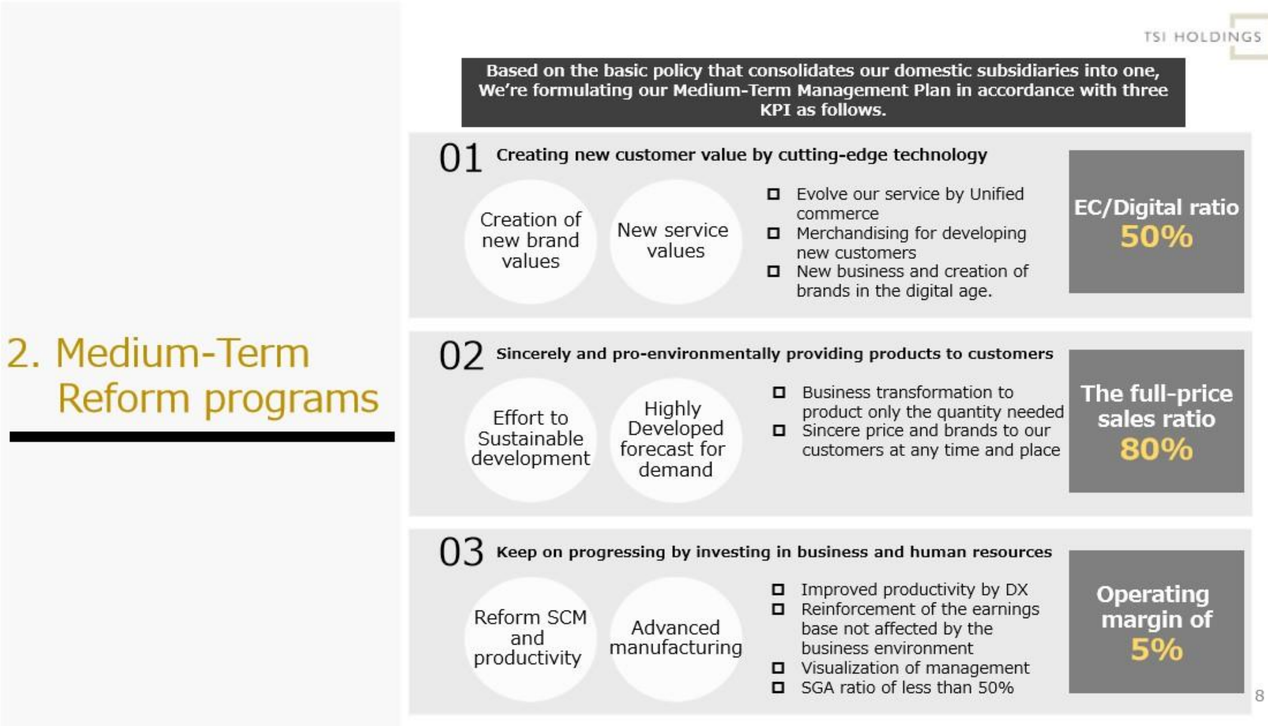
In addition, as the second thing is, we are going to compete with regular price products. So we will change our approach to MD and how it is assembled.

Thirdly, the digitization of the store and salesperson. Although we have been disseminating this information through various media channels, our store network will shrink. But we will invest in the remaining stores to transform them into stores that can realize unified commerce.

Fourth, we have been working on changing sales channels from brick-and-mortar stores to digital and ecommerce. This means that we will switch to it, including our customers.

The fifth is to jointly invest in one company this time. By cultivating human resources, we are planning to aggressively expand globally. Then, all members of the Group will get together to develop the digital native brands.

As I mentioned, the break-even point is temporarily lowered. Although this will have an extremely significant effect, the objective of the current merger is to increase management speed and improve the ability to generate business more essentially.



Next, please see the Medium-Term Reform Program on page eight.

These three key KPIs have been set, and on the assumption that they will be achieved, we are now formulating a medium-term management plan. We will publicize this information properly as soon as it is formulated.

Out of three KPIs: one is 50% digitization ratio. Second, the selling with regular price is 80%. The third is an operating income margin of 5%.

We have not changed what we do in our brand business, but the way we provide them to our customers will be completely digitized. The first is to increase the digitization ratio to 50% of the total business. This is not only the expansion of ecommerce, but also the digitization of all aspects, including marketing.

The second largest KPI is the selling with regular price of 80%. We had been thinking about 60% or about two-thirds of the ratio of this would be sound, but now we are aiming for 80%. In the future, we plan to sell out at the list price from the beginning, and we are changing the course of business.

I have just mentioned MARGARET HOWELL is taking the lead. But even considering the environmental impact, we cannot allow us to create wasteful products. We will sell everything we need from the top of the value chain to the bottom of the value chain and provide it to our customers at a fixed price. The second major KPI is this 80% of selling with regular price.

The third KPI is linked to lowering the break-even point through the integration of one company just mentioned, but I would like to make digital investments and global investments in the future, so I would like to create a structure that can generate stable profits without depending on sales and generate funds for investment.

The third KPI is to raise productivity, lower fixed costs, and aim to become a company with a stable operating margin of 5% or more.

Digitization rate, selling with regular price, and operating profit margin enabling investment. We are working on this as the three most important KPIs.

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1. Plan for 2021 Ending February

Unit:Million Yen

	1st Half				2nd Half				Full Year			
	Results 2020 Ending Feb.	Results 2021 Ending Feb.	Composition Rait(%)	Y/Y (%)	Results 2020 Ending Feb.	Plan 2021 Ending Feb.	Composition Rait(%)	Y/Y (%)	Results 2020 Ending Feb.	Plan 2021 Ending Feb.	Composition Rait(%)	Y/Y (%)
Net Sales	81,847	56,270	100.0	68.7	88,220	75,930	100.0	86.1	170,068	132,200	100.0	77.7
Operating Income	-164	-10,469	-18.6	-	234	-7,330	-9.7	-	70	-17,800	-13.5	-
Ordinary Income	769	-9,642	-17.1	-	1,081	-7,058	-9.3	-	1,851	-16,700	-12.6	-
Profit Attributable to Owners of Parent	1,053	-14,434	-25.7	-	1,127	14,484	19.1	1285.2	2,181	50	0.0	2.3

Net Sales: Plan based on the guideline to restrain our purchasing to 70% in principle.

Operating income: Plan JPY1.7billion in costs relating to structural reforms.

Extraordinary income: Plan JPY1.8billion in gains from sales of fixed assets in Shibuya etc.

Extraordinary loss: Plan JPY1.7billion in costs relating to early retirement, impairment loss etc.

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Please refer to page 10. Thirdly, we are pleased to announce our full-year earnings forecast.

As for the full-year earnings forecast, I mentioned the results for the first half earlier. For the second half, please refer to the YoY changes in net sales here.

In the second half of the fiscal year, we see the net sales were about 86% YoY. We may think that it would be better to read more bullishly about this, but because our business is urban in nature, in fact, we have narrowed our purchase for the second half to about 70%. We will not be very optimistic in the second half and have made a forecast on the assumption that sales will not completely return.

Regarding gross profit, as I mentioned earlier, since we are controlling on purchasing products, we do not plan to outweigh the extra 100% of our purchases, as in the first half of the fiscal year. So, we assume that gross profit will not be damaged to a great extent.

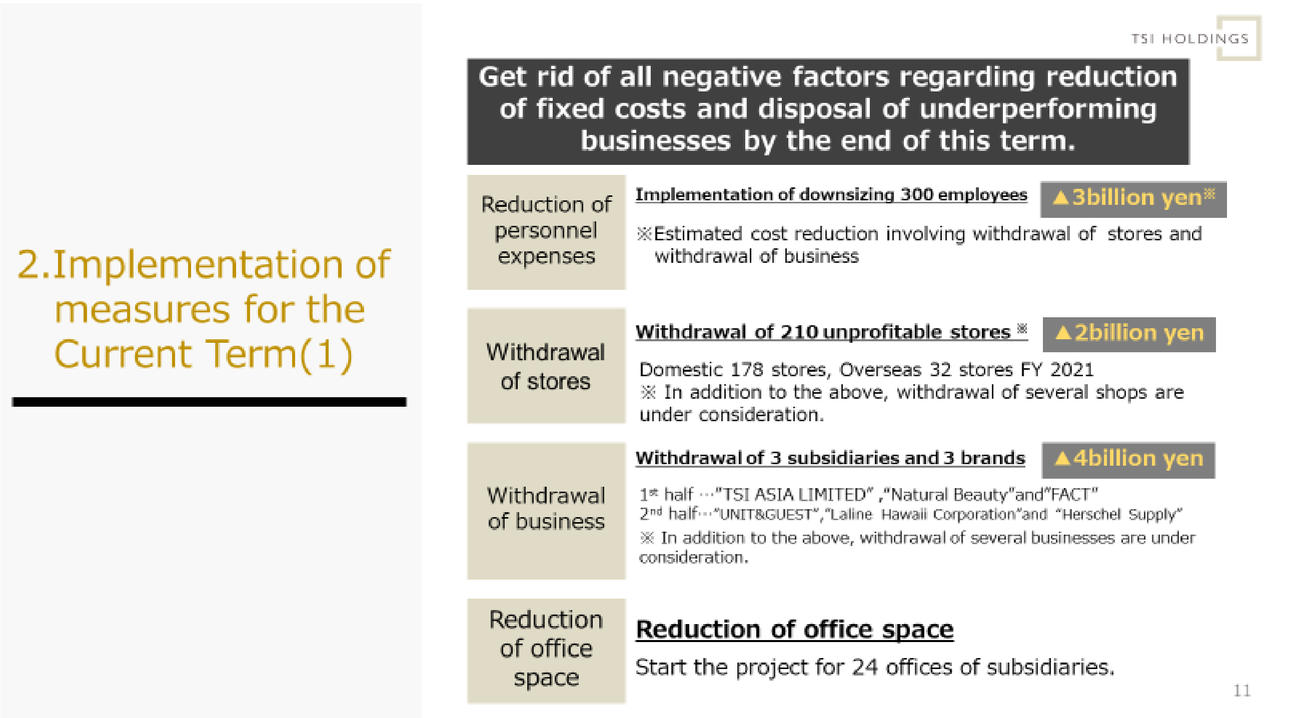
However, this time, we have decided to withdraw from the business or are considering withdrawing a number of brands. We anticipate that gross profit will be somewhat damaged by the final disposal of inventory in either case.

As described in the notes below, all current operating companies have thoroughly targeted expenses at the spring stage, but will incur restructuring expenses, including withdrawal from businesses and withdrawal brands. These items were booked at around JPY2 billion in the second half of the fiscal year.

Based on these factors, we expect operating income to be approximately minus JPY7.3 billion and, as a result, operating income to be minus JPY17.8 billion for the full fiscal year.

The final profit is expected to be JPY50 million, which includes the disposal of assets, et cetera.

Our forecast for the full fiscal year is an extremely large loss. But as I have mentioned earlier, we have decided to post a large loss for the current fiscal year as a result in order to completely revive the Company into the next fiscal year and beyond. I would like to explain our measures for this.



First, I will explain the typical measures on pages 11 and 12.

On page 11, the first one is to lower fixed costs. This initiative aims to lower the break-even point from the next fiscal year onward even if we increase the negative figure for the current fiscal year.

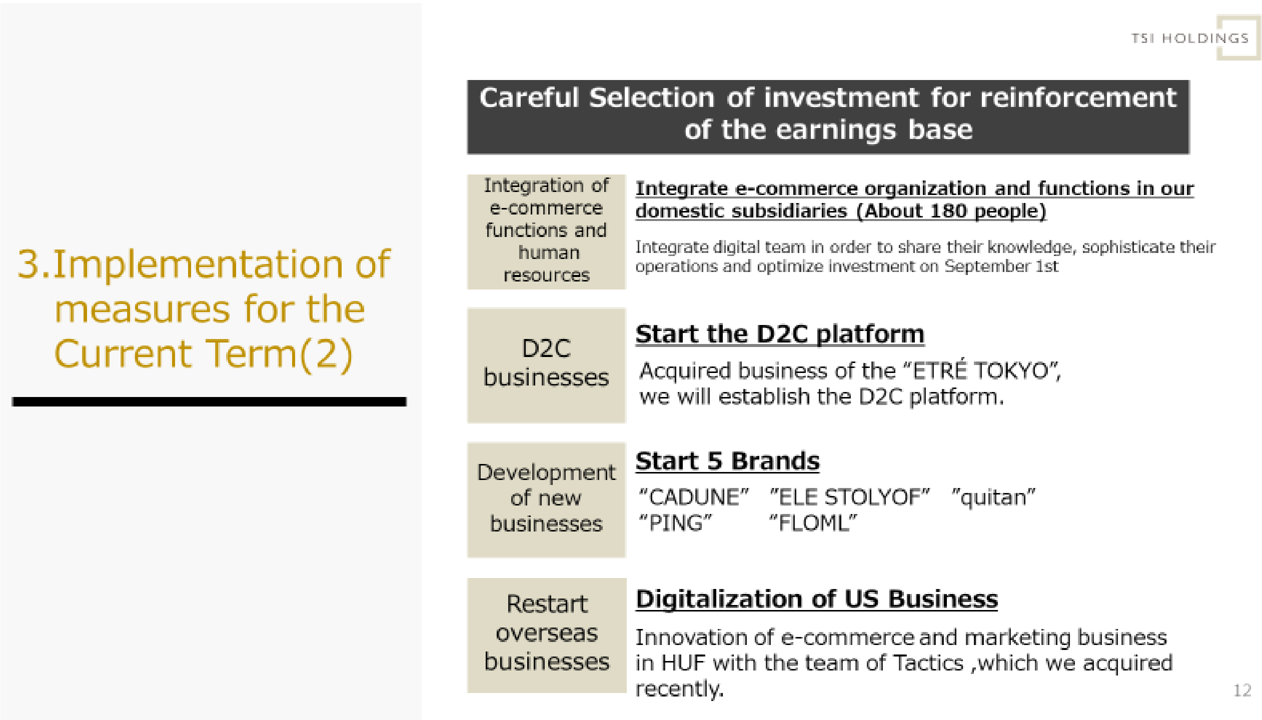
First of all, as I announced, we reduced headcount by 300 at headquarters. Including the number of employees to withdraw from stores and withdraw from businesses. Personnel expenses are expected to be approximately JPY3 billion, which is a reduction of JPY3 billion from normal conditions.

We also expect to withdraw about 210 stores from unprofitable stores, which may be around this fiscal year. We expect that this will result in a decrease in SG&A expenses of approximately JPY2 billion.

Then, we expect the withdrawal from the business. We are currently announcing the withdrawal of three businesses and three brands, but we are considering the withdrawal of several more companies. We will announce this once it is finalized. We expect to reduce SG&A expenses by approximately JPY4 billion through these measures.

Apart from whether all of this will be reflected as it is, we want to thoroughly lower the break-even point in the current fiscal year and to create a structure that will enable us to do so without achieving sales as before. Naturally, we are considering the integration of one company based on these factors.

The fact that we will simply reduce fixed costs by nearly JPY9 billion within the current fiscal year is one of the major measures we have implemented for the current fiscal year, namely fixed costs and SG&A expenses. I think you can think of this as a factor that will come to fore in the next fiscal year.



On page 12. We are going to reduce our fixed costs and thereby continue our investment. As I mentioned a little more in terms of SG&A expenses, we have been making investments in the current fiscal year.

I have included some representative items here and have written them out. First, on the premise of the integration of one company, prior to that, we unified all the digital teams in the Group. Currently, the digital team has a team of about 180 people.

We are using a variety of cutting-edge tools to thoroughly digitize our store salespeople. With the 50% digitization, we are planning how much KPI this team will increase and how much it will bring to 50%.

I am proud that this consolidation of ecommerce functions and human resources is a fairly strong team within the apparel industry, and I will invest here.

Another was the transfer to the business of a company called ETRE TOKYO. It was started by rebuilding it as a platform for not only the brand that we now have, but also the Group's digital native brand and D2C brand.

We are building on this platform with a sense of speed that large-scale brands with regular stores cannot do, and we are going to launch more brands. We plan to eventually make this a big crowd in our business, then new businesses. In this environment, we continue to invest in new businesses.

Others are females' brand “ELE STOLYOF” developed by Sanei International and an adult women's brand “CADUNE” developed by Arpege in the first half of the year. Anglobal then launched a brand called “Quitan”, and then there’s a brand of golf wear called PING, which TSI Groove & Sports started. We have already begun these kinds of products.

Several other ideas are now emerging, so even by reducing other costs, we will clearly invest in attractive brands.

Fourth is the Overseas Business. Although we have not taken action in the Overseas Business in this environment, the US team, particularly, have been advancing extremely remarkable reforms despite the lock-down phase. The digitization of business in the US is advancing, centered on HUF.

The platform company for ecommerce centered on skateboards and snowboards is Tactics, which we acquired, and that team is integrating them into our streetwear brand, HUF, and we are revamping the ecommerce and digital marketing of the HUF Business.

The comparatively strong performance of HUF sales and gross profit when looked at by brand was underpinned by sales of digital marketing and ecommerce even under lock-down phase. Business in the US is in a situation where digitization is advanced.

During the current fiscal year and next fiscal year, we will invest the money we reduced in other areas.

As for the measures to be implemented starting this term, the main points of the cost system and the investment system are the above.

Please take a look at the supplementary materials in the latter half of this report.

That is all for my explanation.

[END]

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