



TSI HOLDINGS

TSI HOLDINGS CO., LTD.

Q3 Financial Results Briefing for the Fiscal Year Ending February 2021

January 14, 2021

Event Summary

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[Participants]	62	
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	Shinichi Uetadani	Chief Executive Officer
	Tsuyoshi Shimoji	Director
	Masaaki Oishi	Director
	Mitsuru Naito	Executive Officer, General Manager of Finance & Accounting Dept.
	Hiroyuki Watanabe	Director, TSI EC STRATEGY CO., LTD.
	Kohei Yamada	Manager, Corporate Communications & Investor Relations Office

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Question & Answer

Yamada: Now, we will move on to a question-and-answer session.

In addition to Oishi and Naito, as previously announced, Shimoji, who is scheduled to be assigned as CEO from March, which we announced yesterday, will be joining. We would appreciate it if you could ask us some questions. Then, I would like to take your questions.

We have received questions about the impact of the expansion of the third wave of coronavirus on the Declaration of Emergency Situation, the difference from last spring, and the change to winter sales and consumption behavior later. The next point is about the change of organization in March.

Uetadani: This is Uetadani. Questions regarding the third wave, we found that the last time all of our purchases were halted, the stores were closed, and the distribution was broken, the biggest of all. We brought back the products from the stores and put them in the EC warehouse, and we deliver them from it. The operation system of some brands has been overwhelmed.

This time, we have decided in advance on the inventory for EC and the prioritization of shipments, and we are now preparing to operate the warehouse and, in some cases, expand the space. So, one thing is not to let it overwhelm the logistics.

The other was digital marketing, although some had begun to explore. We disseminate this information to our customers, invest it in a planned manner, and make preparations to increase the amount of communication even if a store cannot be opened.

The other is that we have narrowed our purchasing in this spring to around 85% so far. Some are planning to sell last spring's inventory as well, at the same as a full price. From the end of the spring to the summer, we are in the midst of a decision whether to relax this. If we judge it to be tough, we would like to sell our subsequent inventory in the same narrow condition. We are not worried that sales will decrease drastically even when the inventory is narrowed down at this point. The main measure will be to further narrow inventories depending on the situation.

In addition, as for the new system from March, in short, the opportunity is once every 10 years. In this sense of crisis, we have greatly changed the structure of the Company. Changing the organization to make sure that items can be sold at full price even though the sales are small. In order for it, making it digitized thoroughly.

We've implemented reforms of old legacy, existing ways, organization, and systems, but we'll renovate all of our teams to do this. It is not necessarily only age, but we intend to change generations.

Business lines, cross-functional functions, and management. The most important thing at this time is to thoroughly revamp the new team to break old legacy. A new team that embodies this concept will be responsible for the horizontal axis of the integrated operating company or for the vertical line of business, and Shimoji, who is promoting internally, will compile them and lead.

Yamada: Mr. Kono, is that all for you?

Kono: Thanks. I think that EC will probably expand further, but I think that customer traffic will be slower in the spring in stores, for example, or that there will be concerns about such adverse effects, but I would like you to tell me a little more about trends in the consumption environment.

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Uetadani: Regarding the consumption environment, what we have seen from the third quarter this time is that we cannot sell any clothes that don't have to be worn. Therefore, I think that items such as business clothes and formal clothes will not be sold.

However, products with a high taste preference are sold well in the third quarter of this year, so we intend to specialize in creating that type of products. Presumably, the market will go for the cheapest one if it doesn't matter so much, so we believe that only those products that are highly desirable and can only be purchased here are the genres that can be used in our full-price strategy.

Therefore, we believe that those without individuality will be caught up in price competition and disappear.

Kono: Thank you.

Yamada: Let me move on to the next question. The details of the items to be reduced in SG&A expenses are also described in the materials for the briefing, and the degree to which purchasing of spring and summer items is controlled.

Uetadani would like to answer your questions.

Uetadani: First of all, regarding the reduction of SG&A expenses, many of the biggest ones have to be restructured, so many of them will be developed from the next fiscal year. As I mentioned in some explanations, some brands have improved the efficiency of their store networks, and if inventories are used at fewer stores, reductions in inventories have been effective as a result of early efforts to achieve this.

Similarly, personnel expenses are on a slight downward trend. Naturally, other types of activity expenses are thoroughly targeted, but the cost of shop-around operations and some personnel expenses are large.

The other is that while some of these costs are included in gross profit costs and others are included in SG&A expenses, the cost structure has changed due to the shift to ecommerce, resulting in a substantial decrease in SG&A expenses. If digitization progresses with properly managed conditions, basically SG&A expenses will decline, so I think this is another factor that has started to work.

In addition, 85% of 21SS purchases have been curbed and, depending on the brand, only half of the brands that carry over last spring sell full-price items. While looking at the trends of the third wave, we are now considering how far inventory will be narrowed from March and April onward. We are keeping our inventory at the extreme because we won't be able to sell most of the formal clothes and business clothes, or the replacement demand for business clothes.

This is all.

Participant: Thank you very much.

Yamada: I would like you to go to the next question. This is a question asked by Tachibana Security, Ms. Ochi: full-year sales forecasts and risk factors.

He mentioned in the presentations, so there may be some duplications, but Uetadani would like to comment in terms of risk factors.

Uetadani: Naturally, we are shifting to EC with limited purchases, so we are preparing to be sure, but it is a matter of degree. For example, if it is just a metropolitan area, we may be able to hold on to it, but if the nationwide lockdown status is prolonged, we are not in a position to hold on to the half of our sales. So if the range is widely and prolonged, I think it will be damaged again. I don't think it will be a terrible situation.

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The other one is stock. Even if EC is growing, not all of it can be covered by EC when stores become as close as possible to zero. EC capacity will expand to Max, but not all of this will be captured. Therefore, if the decline in customer traffic at our stores is 75%, 50%, and 30%, it will naturally be affected by this, including inventory and including fixed-cost structures, even though it is narrowed down.

This is all.

Yamada: Let me move on to the next question. It's about MIX. Tokyo, the coordinating site that was mentioned in the explanation materials starting in March.

I can't say anything in detail because it is before the official announcement. However, Uetadani would like to explain it briefly.

Uetadani: A new team, a digital leader joined today, so I would like him to briefly explain it. He is Watanabe.

Watanabe: I am Watanabe, Director of TSI EC Strategy. Regarding the new MIX. Tokyo service, I will tell you what we are trying to achieve with this new service. We will collect the coordinated contents posted by the sales staff of each brand in one of these new sites and promote them to our customers.

As I mentioned earlier, the reason behind this is the extremely high level of interest in our customers as we actively implement online customer service and staff content by our sales staff, and the fact that we feel a good response to this. It's a brief explanation, but that is all.

Yamada: Is the answer all right?

Participant: Thank you.

Yamada: Let me move on to the next question. What is the mission entrusted to the new President, and President Shimoji, how do you analyze the current issues and strengths of the Company? Please tell us the parts that will change or that will not change in your management policy.

First of all, Uetadani will talk about the mission that would be entrusted to the new president.

Uetadani: I think Shimoji will explain this by himself. His greatest strength is that he is what we call a self-made man., so his characteristic is that he can quickly make decisions and incorporate them into the field.

The most important thing for this organization is to streamline the hierarchy to increase speed. Therefore, I would expect Shimoji as a team management to bundle leaders with a variety of cross-divisional specialized axes and swiftly decide on and act accordingly. We hope that the new organizational structure that has undergone structural reform will be properly operated.

Shimoji: Let me greet you without a mask. I am Shimoji, who will be assigned as a President and CEO from March 1. Thank you in advance. Let me just say hello.

I believe in the power of fashion. I myself believe that fashion can contribute to society and have the power to cheer you up. For many years, I have made a number of men's fashion clothes as designers. After having experience as President of Ueno Shokai, I oversaw the business of TSI Holdings, the parent company, even though it was in the midst of the coronavirus crisis last year.

Looking ahead, we are determined to identify the advantages and disadvantages of our distinctive brand lineup and establish a management stance that is both strong and weak.

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Although it is a difficult time to see what kind of clothes and what kind of shops are needed in the current situation, I believe that I have a sense of what it is like to be a dressmaker, as well as the knowledge I have gained so far. I would like to share this with all of our employees and work together as a team.

I would like to make TSI the happiest apparel company in the market. We hope that we will benefit our employees, their families, the shareholders we support, and society as a whole. To that end, I intend to do my best to earn a solid amount of money first.

I hope to make cool clothes and make lifestyle proposals for everyone while cheering everyone up. I would appreciate your cooperation. Thank you very much.

This is an issue for the Company that you are asking, but it is also a long-standing company. We have been working together on consolidation, et cetera, but I think that it is the nature of apparel or a unique old constitution. We have a business structure in which we make quantities and sell them down.

There are places that hold industry-wide sales at an early stage, but as a Company that President Uetadani has been talking about earlier, we will purchase products in an appropriate amount to increase the value of our products and sell them in an appropriate amount. We will not do discount sales as much as possible, but sell out all.

I think that the biggest mission for apparel and TSI in the future will be to transform fresh products into offerings in a way that will delight everyone. We intend to do this as a whole Company.

Yamada: Shimoji addressed his policy speech as well. How was his answer?

Participant: Thank you. Mr. Uetadani's retirement has just come to this timing. You mentioned earlier that it was a good opportunity, but could you tell me in more detail about the resignation at this timing?

Uetadani: There is certainly a lot of debate about timing. At what point are we ready for reform, when we have set up the structure and organization, or until we see results? There are various ideas for sure, but as I mentioned earlier, at this point in time I thought it was important to change the system clearly from the top level.

I think it is one way to change all members of the management team, including myself, when we are about to start a new term and had a large deficit and the system had changed. So, I think the timing is just right.

Participant: Thank you very much.

Yamada: Thank you. Now, I would like to go to the next questions. The time has been pushed a lot, so we will answer first what we can answer in a lump sum.

Do we expect any one-time expenses such as withdrawal of brands in the fourth quarter?

Yes, we do. In the fourth quarter, we will have to deal with the details of the transfer and the valuation of the remaining 4Q inventory. It is not a very large amount of money, but such expenses are included.

Although Uetadani explained that the cross-organization was done ahead of time, I think it would be better if you understand it as the integration of existing teams rather than the hiring of 200 new people.

Ms. Maki, is the answer okay?

Maki: Thank you. What are your thoughts on how the team's future missions will be balanced: B2B Business, or the digitization of your company itself? Could you tell me those?

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Uetadani: Our digitization is of course our highest priority. The first priority is to complete our own digitization. Basically, we are going to take that know-how and use it in B2B, so our first priority is to complete our own digitization. This is all.

Maki: Okay. Thank you very much.

Yamada: Next is the content of specific initiatives for online customer service, and is there a company that is at a high level at other companies from our point of view?

Uetadani would like to comment on this, although the subjective view of this area will also be included.

Uetadani: Regarding online customer service, in the digital space we will replicate the same thing that we respond to customer inquiries at our stores and by phone while showing products. That's chatting and showing images. This clothing is a bit large, heavy, thick, and this combination is good, including things like "shall I reserve it for you?" So, it's online customer service that replicates what's happening in the store in the digital space. We are introducing training tools for this purpose.

We are proceeding with other companies. There is one company in our groups, but rather than store-centered apparel from the same business, it is a D2C company. The design and philosophy are all different, and they are completing various things digitally, including customer service. We believe that digital native brands are our best model in this sense. This is all.

Yamada: Is that all right with you?

Participant: Yes. Thank you very much.

Yamada: The next question. This is a project to reduce the office area. Uetadani would like to explain this.

Uetadani: This time, since we will integrate our operating companies, we are not in the age of doing everything face to face, but we would like to put them together in a physically close place. Now it's quite dispersed.

We are thinking of relocating our office to a location where we can reduce the overall size of the office, including teleworking and free addressing, and move to a place where everyone can gather nearby, and where we can probably achieve a reduction in SG&A expenses of JPY1 billion. This will come from the next fiscal year onward, but we are steadily advancing it. That's how it feels.

Yamada: Is that all right with you?

Participant: Thank you.

Yamada: Now let me move on to the next question. Reasons why the market does not return. The question is not a one-time issue but is whether consumers are changing their values for clothing.

Uetadani: I believe that the only reason why the market did not return to the original level is that it was originally an overstore or overbrand. There is a decline in consumer sentiment. Beyond that, the supply-demand balance with us was wrong. That's why I think there are so many sales, so it won't go back in that sense.

In addition, changes in consumer sentiment have accelerated, and there is no need for anything other than what we really want. Therefore, it is based on this that we survive by refining our brand. Customers still have a desire to show them beautifully and to be cool, so I don't think these needs themselves are going to disappear, rather than being voluminous. We intend to continue to be a company that responds to that.

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And, unlike Europe and the United States, the emergency declaration is not a complete lockdown, but at the time of the last emergency declaration, about 70% of actual stores were completely closed. Since our shops are located in the city center, more than 70% of sales have resulted in the instantaneous loss.

I mentioned that under such circumstances, the current measures would naturally not be able to keep up. Even though it is different from Europe and the United States, closing stores on that scale would indeed result in a decline in sales that could not be fully covered. I don't think that will happen, but we are preparing to what extent we will take strict measures according to the stage. This is all.

Yamada: It was simple, was that okay with you?

Participant: Yes. Thank you very much.

Yamada: The last question. Regarding the concept of physical stores after business restructuring and the withdrawal of unprofitable stores. Is there a possibility of further withdrawal?

Uetadani: I think that the percentage of digitization is about half. But it is something you wear, there will always be a need for people to actually touch it and want to wear it. In this sense, the store will remain a place for trial.

From that point on, if it is still a technology, it is not possible to replicate everything in digital space, so I think that stores will become vital as a place to experience the brand in the sense of communicating face to face and providing a brick-and-mortar world view.

In addition, all of these aspects, such as buying through ecommerce and receiving it at the store and ordering it through ecommerce, will be integrated, so I think the number will decrease, but the real store will remain as a base shop for digital shop.

Conversely, I think that the remaining stores are an extreme luxury and will be important places. In some cases, the idea of break-even will change in the future as a showroom. This is all.

Yamada: Mr. Sato, was the answer okay? Thank you very much.

The closing time has passed a bit, but we could answer all your questions. If you have any additional questions, please contact us. We will handle them, including one-to-one coverage. Well then, thank you for taking the time today. Now, I would like to conclude the briefing on our financial results for the third quarter of the fiscal year. Thank you very much.

Uetadani: Thank you.

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Document Notes

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