TSI HOLDINGS CO., LTD.

Q3 Financial Results Briefing for the Fiscal Year Ending February 2021

January 14, 2021

Event Summary

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Presentation

Yamada: Good morning. Now, it is 10:00 AM, so we will start a financial results briefing for the third quarter of FY2020, which we announced yesterday.

First of all, Uetadani will give a presentation on the outline of the financial results briefing using PowerPoint. After we finish the presentation, we will move on to a question-and-answer session.

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1. Consolidated Financial Highlights -Profit and Loss-

Unit:Million Yen

	Cumulative Q3RD 2020 Ending Feb.		Cumulative Q3RD 2021 Ending Feb.			
	Results	Composition Rate (%)	Results	Composition Rate (%)	Y/Y Change	Y/Y (%)
Net Sales	125,823	100.0	97,219	100.0	-28,603	77.3
Gross Profit	68,524	54.5	46,741	48.1	-21,783	68.2
SG&A Expenses	66,583	52.9	55,012	56.6	-11,570	82.6
SG&A Expenses(excl. Goodwill Amortization, Depreciation and Amortization)	62,547	49.7	51,699	53.2	-10,848	82.7
Goodwill Amortization	774	0.6	598	0.6	-176	77.3
Depreciation and Amortization	3,261	2.6	2,714	2.8	-546	83.2
Operating Income	1,940	1.5	-8,271	-8.5	-10,212	-
Ordinary Income	3,312	2.6	-7,012	-7.2	-10,324	-
Extraordinary Income	3,109	2.5	2,485	2.6	-623	79.9
Extraordinary Loss	145	0.1	4,906	5.0	4,760	3377.6
Profit Before Taxes	6,276	5.0	-9,433	-9.7	-15,709	-
Profit Attributable to Owners of Parent	4,821	3.8	-11,126	-11.4	-15,947	-
EBITDA ※	5,976	4.7	-4,958	-5.1	-10,934	-

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

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Uetadani: Good morning. I would like to explain the third quarter. Let me share the screen.

As you can see in the cumulative figures up to the third quarter on this page, sales, gross profit, and operating profit have been significantly negative because the first half results were a major drag. Since the impact of the first half is too large, it is difficult to determine how much the current business performance is recovering. Therefore, I will explain only the three months, 3Q results, as itself.

2. Consolidated Financial Highlights -Profit and Loss- (September to November)

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Business conditions of the entire Q3

Recovery of the market was slow due to the COVID-19 pandemic and the situation remains harsh.
Under such circumstances, although this is an evaluation of a 3-month spot period of Q3,
we were able to make our businesses recover to a surplus of operating income.
It has become clear that there exist strong brands which can increase net sales and earnings within TSI's brand portfolio even under the COVID-19 pandemic.

Unit:Million Yen

	Q3RD 2020 Ending Feb.		Q3RD 2021 Ending Feb.			
	Results	Composition Rate (%)	Results	Composition Rate (%)	Y/Y Change	Y/Y (%)
Net Sales	43,975	100.0	40,948	100.0	-3,026	93.1
Gross Profit	24,615	56.0	22,571	55.1	-2,043	91.7
SG&A Expenses	22,510	51.2	20,373	49.8	-2,136	90.5
SG&A Expenses(excl. Goodwill Amortization, Depreciation and Amortization)	21,121	48.0	19,192	46.9	-1,929	90.9
Goodwill Amortization	193	0.4	209	0.5	16	108.3
Depreciation and Amortization	1,196	2.7	972	2.4	-223	81.3
Operating Income	2,104	4.8	2,197	5.4	93	104.4
Ordinary Income	2,543	5.8	2,630	6.4	87	103.4
Extraordinary Income	1,214	2.8	2,066	5.0	851	170.1
Extraordinary Loss	-227	-0.5	892	2.2	1,119	-
Profit Before Taxes	3,985	9.1	3,804	9.3	-181	95.5
Profit Attributable to Owners of Parent	3,768	8.6	3,307	8.1	-460	87.8
EBITDA ※	3,493	7.9	3,379	8.3	-114	96.7

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

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In the third quarter alone, we were able to achieve 93.1% YoY in net sales, 91.7% YoY in gross profit, and 104.4% YoY in operating income, as stated here.

The key point was that sales were naturally in a tough situation, but in the past, when sales declined, gross profit was hurt by a greater amount than that, causing a deterioration in selling, general and administrative expenses and fixed costs, resulting in a loss of operating income. However, even if sales declined this time, we were able to clearly curtail purchases and sell them with little inventory. As a result, net sales and gross profit were kept down by a sliding scale of around one point.

In addition to this, we will reduce SG&A expenses, which had been done in advance. Many of these items were not effective in the current fiscal year, but they began to work partially, enabling the Company to curb SG&A expenses more than sales. As a result, we were able to achieve an increase in operating income of 104.4% in the third quarter of the fiscal year under review.

This trend has continued, including in December, and I think that we have recovered for now.

3. Consolidated Financial Highlights -Profit and Loss- (Quarterly)

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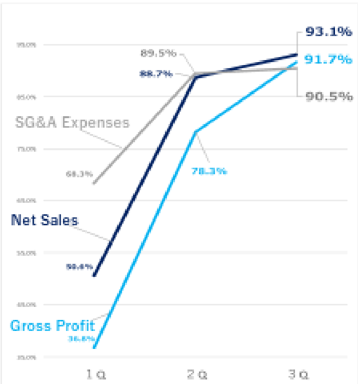
Earnings improved quarter-by-quarter due to recovery of net sales and controlled earnings structure.

【Year-on-year change of net sales, gross profit, SG&A expenses by quarter】



Net sales
Net sales of Q3 (Sep.-Nov.) improved arriving at 93.1% year on year. EC net sales in Japan remained favorable registering at 114.2% year on year.

Gross profit margin
It recovered to 91.7% year on year.
We controlled selling price, cost by reducing purchases, discounts in check.

SG&A expenses
We made efforts to reduce fixed costs and costs were restrained more than a decrease in net sales.

Operating income
We achieved 2.1 billion yen.
Lower revenue and higher profit were achieved arriving at 104.4% year on year on a 3-month basis.

Extraordinary income
We tranferrd a fixed assets for 1.8 billion yen.

Unit:Million Yen

	Q1ST 2021 Ending Feb.		Q2ND 2021 Ending Feb.		Q3RD 2021 Ending Feb.	
	Y/Y Change	Y/Y (%)	Y/Y Change	Y/Y (%)	Y/Y Change	Y/Y (%)
Net Sales	-21,188	50.6	-4,389	88.7	-3,027	93.1
Gross Profit	-15,553	36.8	-4,186	78.3	-2,044	91.7
SG&A Expenses	-7,194	68.3	-2,240	89.5	-2,137	90.5
Operating Income	-8,359	-336.9	-1,946	193.7	93	104.4
Ordinary Income	-8,277	-279.2	-2,135	251.1	14,112	654.9
Profit Attributable to Owners of Parent	-12,928	-422.7	-2,559	280.2	21,878	680.5

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This graph shows how sales, gross profit, and SG&A expenses have returned to the previous year's levels in the first, second, and third quarters, respectively.

The blue line graph shows sales, and in the first quarter, sales dropped to about half and returned to 93.1%. Although this has also been driven by very strong brands, gross profit has more or less kept pace with sales. Although it has not returned to 100%, gross profit has returned to the same level as sales. As I mentioned earlier, SG&A expenses stopped declining and we were able to stay below net sales without rising, which I think is a factor behind the relatively return to results this time.

As sales at brick-and-mortar stores are not good, EC sales grew to 114.2%, which was a factor behind the strong sales.

Regarding gross profit, we reduced the average purchase for autumn and winter to 70% during the spring season, and achieved a substantial recovery in the gross profit margin. This resulted from the fact that we were able to capture 93.1% of sales despite the fact that we made only 70% purchases by making solid sales with a small inventory.

Naturally, this is a full-price sales period, so we don't give a discount. Since we do not discount prices, there is no significant valuation loss at the end of the fiscal year. We have controlled inventories, and in the third quarter we have secured gross profit after posting roughly half of the expected loss at the end of the fiscal year as usual.

As a result of the relative decline in SG&A expenses, operating income was approximately JPY2.2 billion, 104.4% YoY due to a shift to more efficient ECs, particularly as a result of the shrinking effect of the brand, which began with an increase in the efficiency of the store network. Accordingly, income increased, but revenue decreased.

Extraordinary income was largely attributable to the previously announced sale of fixed assets.

4. Brands Overview (September to November)

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16 brands which account for 1/3 of the whole company exceeded 100% for Q3 (Sep.-Nov.) year on year and gained customers' support in the severe market under the COVID-19 pandemic.

Unit: Million Yen

	Q3RD 2020 Ending Feb.			Q3RD 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	7,027	16.0	50.3	5,910	14.4	54.5	84.1	+4.2
2. NATURAL BEAUTY BASIC	3,778	8.6	59.3	3,112	7.6	58.4	82.4	-0.9
3. PEARLY GATES	3,285	7.5	54.2	3,390	8.3	60.5	103.2	+6.3
4. MARGARET HOWELL	3,571	8.1	63.4	2,815	6.9	66.4	78.8	+3.0
5. AVIREX	2,300	5.2	62.3	1,809	4.4	65.0	78.6	+2.7
6. STUSSY	1,342	3.1	69.4	1,344	3.3	67.1	100.1	-2.4
7. HUF	1,398	3.2	42.8	1,364	3.3	48.0	97.6	+5.1
8. ROSE BUD	1,428	3.2	54.4	1,094	2.7	52.2	76.6	-2.2
9. UNDEFEATED	1,014	2.3	48.7	923	2.3	36.8	91.0	-11.9
10. PROPORTION BODY DRESSING	1,231	2.8	61.7	1,079	2.6	63.1	87.7	+1.4
TOP10	26,380	60.0	56.2	22,845	55.8	58.4	86.6	+2.2
Other Brands	16,489	37.5	56.2	17,713	43.3	51.8	107.4	-4.4
Continuing Brands	42,870	97.5	56.2	40,558	99.0	55.5	94.6	-0.7
Closed Brands	1,104	2.5	48.2	390	1.0	20.4	35.3	-27.9
TOTAL	43,975	100.0	56.0	40,948	100.0	55.1	93.1	-0.9

Net sales
Sports and Street line brands were steady. Looking at TOP10, net sales of "PEARLY GATES" and "STUSSY" surpassed those in the previous year.

Gross profit margin
Gross profit margin of "nano・universe" which had been making efforts to reduce costs substantially improved. Moreover, a majority of TOP10 brands improved gross margin as well.

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Broken down by brand, we did not necessarily follow the scale of large brands, and our policy was to secure solid profits. If I had to choose, PEARLY GATES and STUSSY are the good ones among large brands here.

Golf and sports brands were strong among competing brands because our brands were extremely outstanding and performing. In addition, street-style brands also maintained relatively strong sales.

Overall, sales of large brands were not necessarily good, and I think that the major reason for this performance is that our full-price sales strategy of curbing purchases and curbing discounts has begun to work. Most brands have greatly increased their gross profit margins.

In particular, nano・universe, which had been the biggest brand until last year but had been a drag on earnings, began to bear fruit by shifting its focus to a full-price sales strategy. This time, sales were 84.1%, and net sales decreased but operating profit increased.

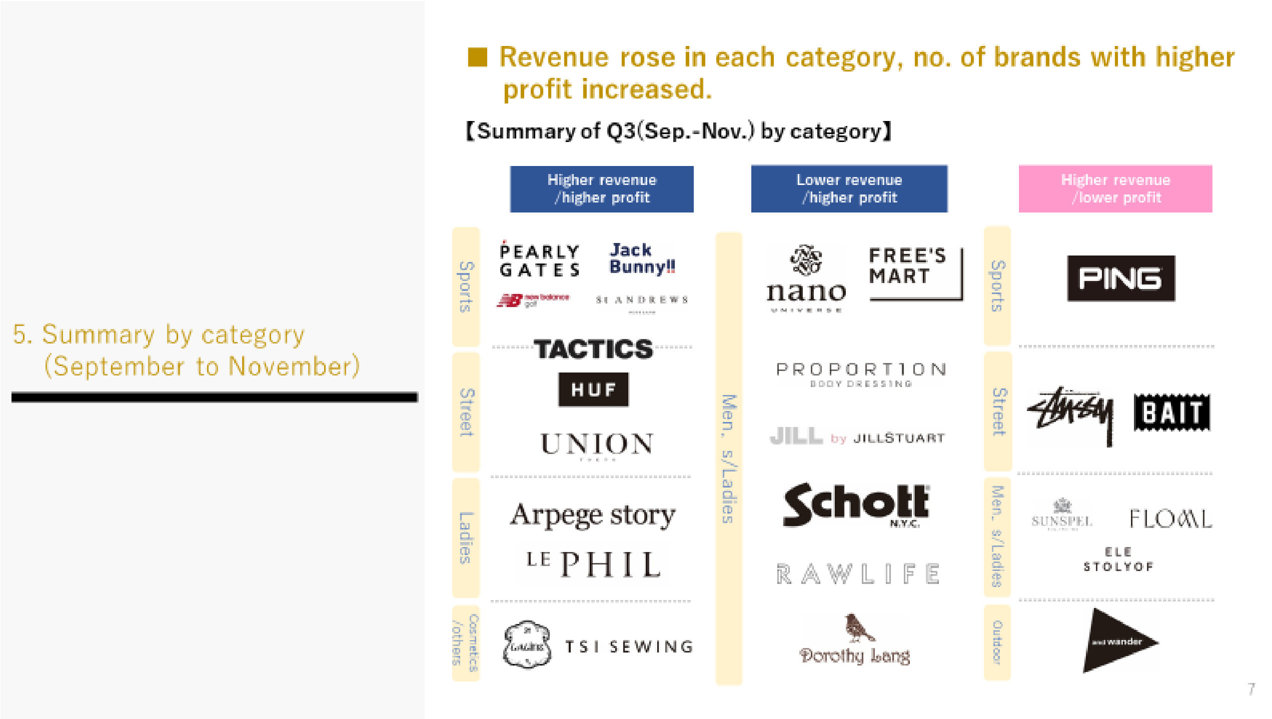
Although NATURAL BEAUTY BASIC is slightly declining, this brand is originally relatively effective in curbing inventories. Conversely, sales were 82.4%, but in normal years, gross profit would have been greatly reduced, but we were able to keep it down.

As will be described later, the gross profit margin of PEARLY GATES and MARGARET HOWELL, which have strong brand power and are advancing thorough full-price sales strategy, has risen. HUF is also good.

Some gross profit appears to have fallen significantly, but this is not because of the rampant price discounts, but because of the impact of collaborative products and other products. In terms of STUSSY, collaborative products with big names, such as COMME des GARCONS and NIKE, performed well as, for example, in collaboration with the 40th anniversary celebration. This is sold at a list price, but because the cost is higher than that of ordinary products, gross profit is declining.

The same applies to UNDEFEATED. Gross profit has declined as inbound tourists have shrunk and the mix of high-margin products has fallen. However, we do not expect this to be a major problem in the long term because it is assumed that brick-and-mortar stores will reopen and, if they return to their original status, the gross profit margin will also recover.

Please see the situations of each brand.



We have divided the brands into those with an increase in income and operating profit, those with a decrease in income but an increase in operating profit, and those with an increase in income and a decrease in operating profit. As I have been talking about, the most important thing we are focusing on is the brand of those with a decrease in income but an increase in operating profit. Of course, there is nothing better than increased revenue, but rather than pursuing scale, we should firmly increase profits rather than the scale of sales, including not making wasteful considering the current situation at this time. There were many brands that were sold with a full price to make a gain.

In particular, the fashion building brands such as nano・universe, FREE'S MART, and proportion body dressing are a group of brands that are relatively large and have broad targets. Their revenues are in decline, but I think that the primary reason for contributing to results this time is that we have begun to focus on the axis of steadily increasing profits.

However, there is nothing better than increased revenue. Let me explain one thing: golf, as I mentioned earlier. I think this is due to the fact that we have a brand with a high percentage of customers. This means that our brand strategy has worked well.

The other is EC. Strong EC brands are contributing to higher sales.

A digital native brand centered on skateboards and snowboards called TACTICS, acquired in the US last year. HUF, which expanded EC with that team, as well as UNION in Japan, are also strong brands in EC.

In addition, the Arpege story is a business specializing in ecommerce, although the number of stores is small. LE PHIL has just launched, but this will also be done in combination with ecommerce rather than expanding the number of stores. Brands with a focus on these kinds of ecommerce from the outset are achieving increased sales.

The increase in income, decrease in profit, and this is bad, but with the exception of the special factors of collaborative products such as STUSSY that I mentioned earlier, it is a brand that has just started or is in the process of growing. This is not a great worry, as it is a stage in which profits catch up from the end of the period in the midst of growth. This is not the result of a disruptive business in pursuit of scale.

6. Net Sales Per Channel

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■ Brick-and-Mortar stores, main sales channel, continues to struggle due to the impact of COVID-19, but net sales remained steady thanks to reinforced measures to draw customers to the Company's EC.

	Cumulative Q3RD 2020 Ending Feb.		Cumulative Q3RD 2021 Ending Feb.			
	Results (Million yen)	Composition Rate (%)	Results (Million yen)	Y/Y (%)	Composition Rate (%)	Composition Rate Y/Y Change
Department Stores	16,478	13.1	9,399	57.0	9.7	-3.4pt
Commercial Facilities(*1)	64,193	51.0	41,516	64.7	42.7	-8.3pt
In-house EC	7,765	6.2	12,579	162.0	12.9	+6.8pt
3rd Party	17,604	14.0	16,403	93.2	16.9	+2.9pt
E-Commerce	25,370	20.2	28,982	114.2	29.8	+9.6pt
Others(*2)	13,481	10.7	11,116	82.5	11.4	+0.7pt
Domestic	119,523	95.0	91,014	76.1	93.6	-1.4pt
E-Commerce	553	0.4	2,186	395.3	2.2	+1.8pt
Overseas(*3)	6,299	5.0	6,205	98.5	6.4	+1.4pt
E-Commerce TOTAL	25,923	20.6	31,168	120.2	32.1	+11.5pt
TOTAL	125,823	100.0	97,219	77.3	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.

*3 Results of Efuego Corp. which operates EC sites centering on Tactics.com in the U.S. is to be consolidated from the second quarter of 2021 and onward. The results are recorded in overseas sales.

TACTICS which was consolidated due to M&A this fiscal year made overseas EC grow by 1.3 billion yen and contributed to EC net sales of TSI.

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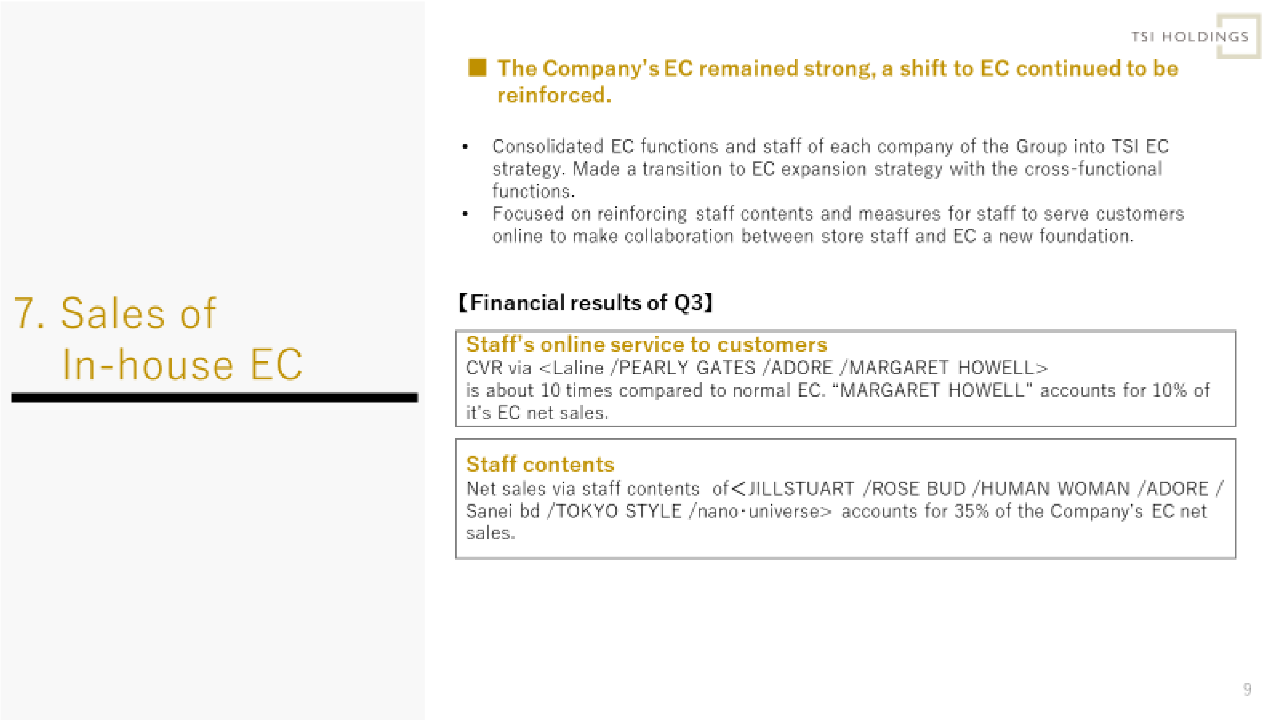
This is by channel.

The Brick-and-Mortar channel is still falling. Although Department Stores are struggling, they are almost at the final stage in terms of improving the efficiency of the overall store network. The major decline this time was in non–department store brick-and-mortar stores, mainly in fashion buildings and roadside stores.

On the other hand, EC has grown significantly. 9.6 points for domestic EC. The biggest growth was in-house ecommerce. As I will discuss later, the centralization of inventory has become a pillar of our full-price strategy, and we have been able to greatly increase this. In addition, overseas ecommerce operations have also been able to grow significantly this time.

The biggest factor was the significant growth of TACTICS, Action Sports' Digital Native Business in the US. Now, Europe is under a severe situation because of lockdowns, including cross-border ecommerce in Britain's MARGARET HOWELL to other countries. However, the rate of digitization has risen to 32.1% in cumulative Q3, thanks to contributions from overseas to the growth in ecommerce.



One of the benefits of the integration of digital teams ahead of the competition is online customer service by store staff. As I have written here, many items are purchased as a single item. However, the results of the brands that we worked on are that even if we serve customers online, both the purchase rate and the unit price do not decline.

Second, we recommend sales staff to post fashion coordination on the website, and we plan to expand this online customer service and staff posting for online customer service to all brands in the future.

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8. Consolidated Financial Highlights -Balance sheet-

Unit:Million Yen

	Cumulative Q3RD 2020 Ending Feb.		Cumulative Q2ND 2021 Ending Feb.		Cumulative Q3RD 2021 Ending Feb.					
	Results	Composition Rate (%)	Results	Composition Rate (%)	Results	Composition Rate (%)	Y/Y Change	Y/Y (%)	Q3/Q2 Change	Q3/Q2 (%)
Current Assets	79,759	44.1	69,048	44.8	70,678	45.8	-9,081	88.6	1,630	102.4
(of Cash and Deposits)	28,372	15.7	31,477	20.4	28,131	18.2	-241	99.1	-3,346	89.4
(of which, Inventory)	28,774	15.9	21,913	14.2	23,823	15.4	-4,951	82.8	1,910	108.7
Noncurrent Assets	101,258	55.9	85,187	55.2	83,745	54.2	-17,513	82.7	-1,442	98.3
(of Investment Securities)	30,964	17.1	24,583	15.9	26,375	17.1	-4,589	85.2	1,792	107.3
(of Investment Real estate)	17,381	9.6	16,516	10.7	16,430	10.6	-950	94.5	-86	99.5
Current Liabilities	46,934	25.9	50,648	32.8	48,723	31.6	1,789	103.8	-1,925	96.2
(of Short term Loans payable)	8,586	4.7	20,702	13.4	14,817	9.6	6,231	172.6	-5,885	71.6
Noncurrent Liabilities	34,142	18.9	26,909	17.4	25,296	16.4	-8,847	74.1	-1,614	94.0
(of Long term Loans payable)	26,816	14.8	20,514	13.3	18,604	12.0	-8,211	69.4	-1,910	90.7
Total Net Assets	99,940	55.2	76,678	49.7	80,404	52.1	-19,535	80.5	3,727	104.9
TOTAL Assets	181,017	100.0	154,235	100.0	154,423	100.0	-26,594	85.3	188	100.1

Current assets
Cash and deposits were at 99.1% about the same level year on year.
Cash and deposits ratio (cash and deposits /current liabilities) was maintained at 57.7%.
Inventories were 82.8% year on year mainly reflecting that purchase was restrained at 70% compared to the company's original forecasts and the negative effects of revaluation of inventories were halved year on year.

Current liabilities
Some 6.0 billon yen which was borrowed for measures against COVID-19 was all repaid in Q3.

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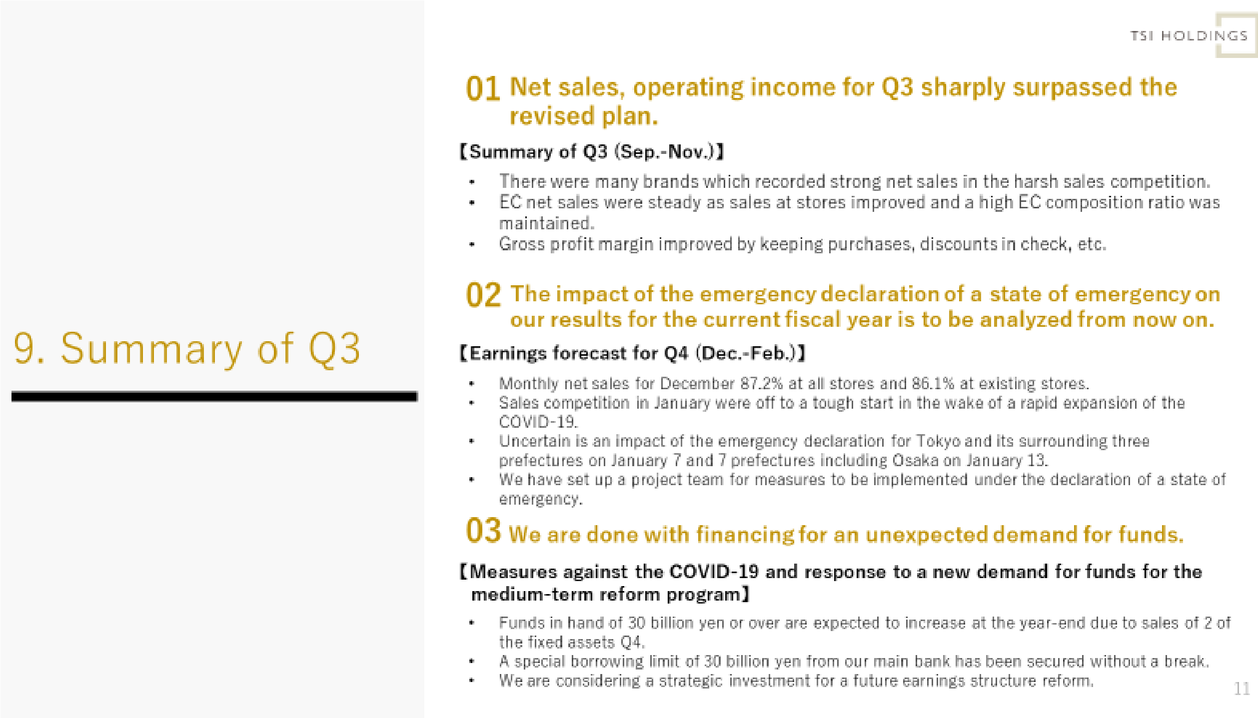
Overview of B/S. There are several points, and in order to survive in the midst of the third wave of covid-19, cash and deposits remained at almost the same level as the previous year at 99.1% YoY.

Inventories were kept at 82.8% of the previous year's level due to a reduction in inventory purchases of autumn and winter items and a reduction in the expected year-end write-down as a result of the Company's ability to use these items clearly.

We borrowed about JPY6 billion for short-term borrowings and borrowed against coronavirus countermeasures in the first half of the fiscal year. We have paid these debts in the 3Q. We are not optimistic about the third wave, so we continue to secure borrowing facilities. However, by having cash and deposits on par with the previous year after repaying borrowings, our cash-to-deposit ratio is 57.7%, which is a healthy condition.



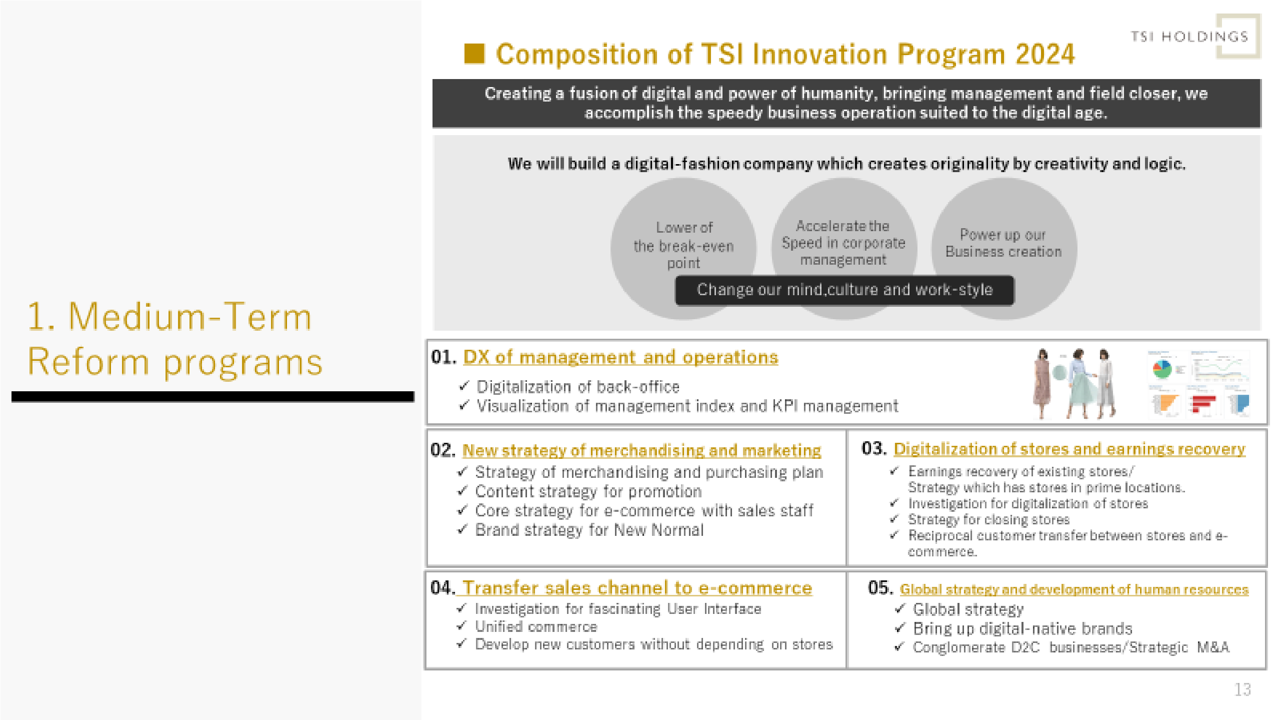
To summarize, in the third quarter, the Company made solid full-pike sales, focusing on loyal brands. In addition, even for large-scale brands targeting a wide range of age such as nano・universe, we greatly changed direction to full-price sales by changing purchases and discounts. As a result, the ratio of full-price consumption has risen and, as a channel, even though brick-and-mortar stores continue to struggle, we have steadily increased ecommerce, which has led to clearly secure profits although there was a decrease in sales.

However, we are analyzing how much the impact of the emergency declaration will be. The reason why we have not changed our full-year earnings forecast despite the good performance of 3Q is that we do not think we can still optimistically view this impact today.

However, we have narrowed down the purchase properly. We have shifted toward a full-price strategy. In addition, we are preparing to shift to ecommerce, including logistics, in preparation for a situation where sales at our stores will become more severe in the future, including reflections from the first half of the fiscal year, so I think we may not be able to make a huge loss in terms of profits. Full-year forecasts remain unchanged, including the downside in the fourth quarter without optimism.

Furthermore, as we announced yesterday, we plan to secure cash on hand of JPY30 billion or more by implementing two additional sales of fixed assets. We intend to use this for digital investments and other purposes in the future, but I think that it will be meaningful as cash on hand in the event of an emergency, so we are taking steps not to overcome the issue of funding.

The above is the current status of the third quarter.

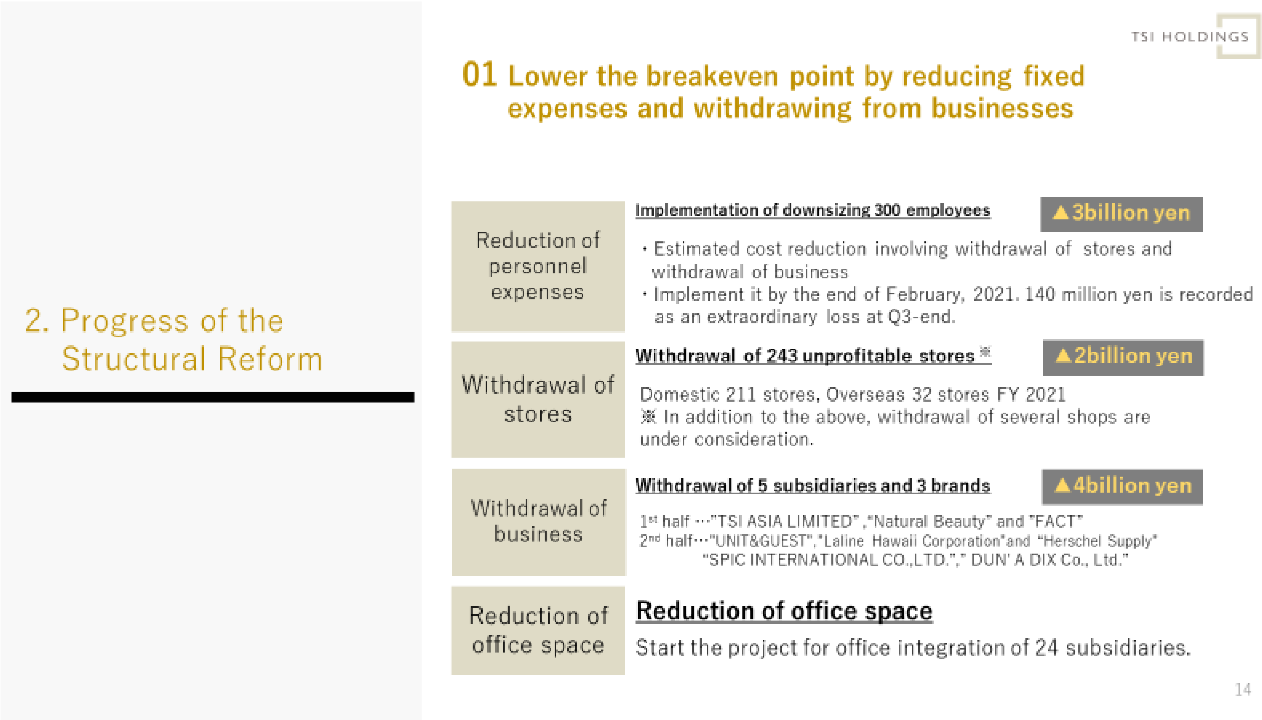


I would like to explain the progress of the reforms in the medium term as I have explained before.

What we are trying to do is to lower the break-even point, increase the speed of management, and promote full-price strategy and digitization to create businesses that can compete globally.

As a digital fashion company, the themes are DX, digital marketing, MD, digitalization of shop sales personnel, major shift to EC, and global human resource development.

Here is some of the progress we have made in this area.

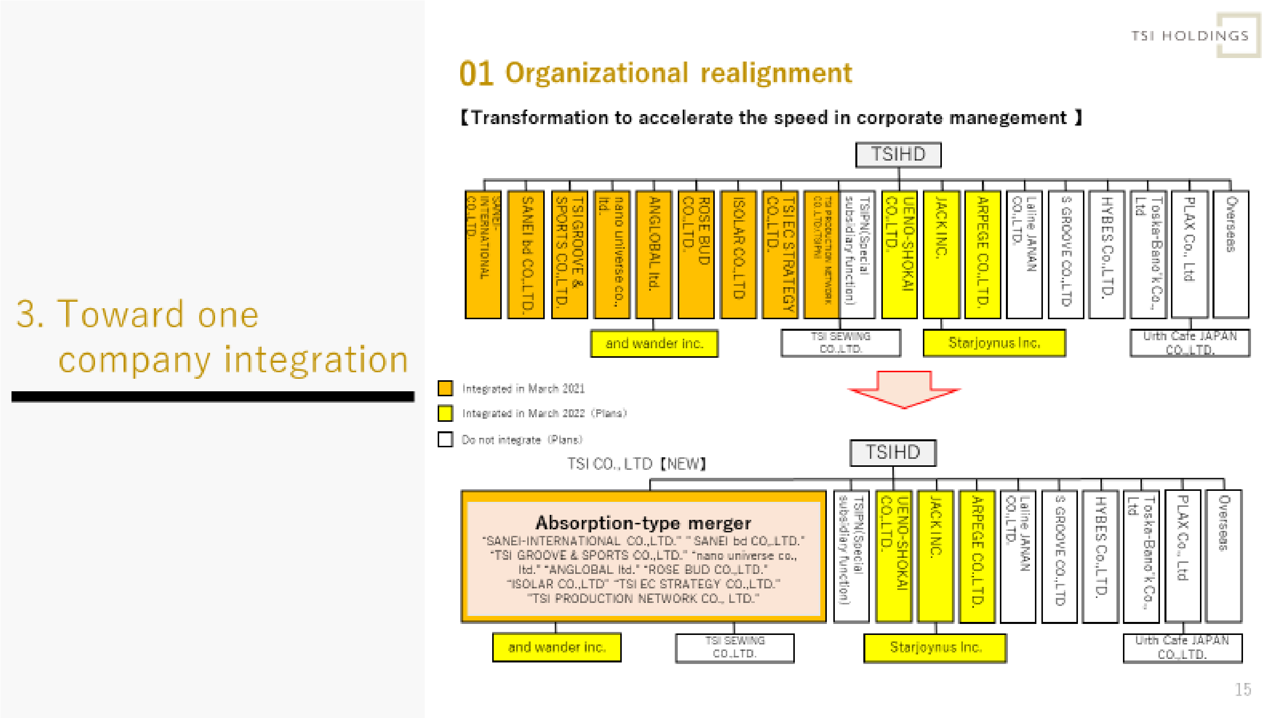


First of all, in terms of lowering the break-even point, in light of the fact that sales will not return as they did in the past, as with 3Q, we will put in place a system to generate solid profits with less sales than now.

According to our assumptions, even sales of around 85% of the normal level so far will be able to generate solid profits. Personnel expenses promised so far, as well as the streamlining of the store network and the streamlining of the business. As a result, we expect to reduce fixed costs by about JPY9 billion from the next fiscal year. Therefore, first of all, the level of SG&A expenses will decrease by around JPY9 billion.

Furthermore, we plan to reduce SG&A expenses by a total of more than JPY10 billion by stepping into variable costs. As a result, in the next fiscal year, we expect to realize a solid return to profitability in a 10% to 20% discount economy in which sales will not return to profitability.

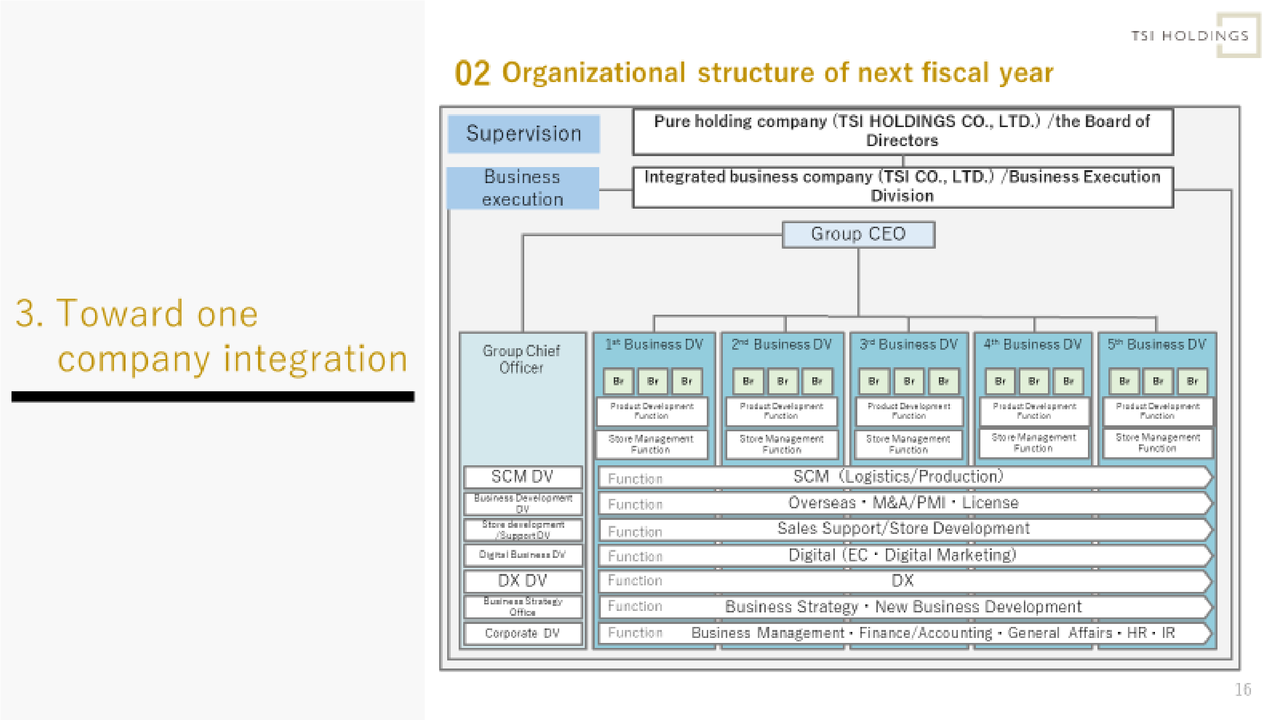
Due to the problem of a contract, the reduction of office space is not necessarily from the next fiscal year, but I think this could also have an impact of around JPY1 billion over the long term.



Organizational restructuring.

Another challenge is to increase management speed. We are integrating two-stage operating companies in order to avoid splitting companies and increasing their hierarchy and slowing down the decision-making process.

In the first stage and this March, we will combine our major companies, which account for approximately two-thirds of our sales, into one operating company first. For some domestic apparel companies, the integration of systems has not yet been completed, so we are considering a two-stage integration in which we will integrate the systems further by March next year after completing the system integration during the next fiscal year.



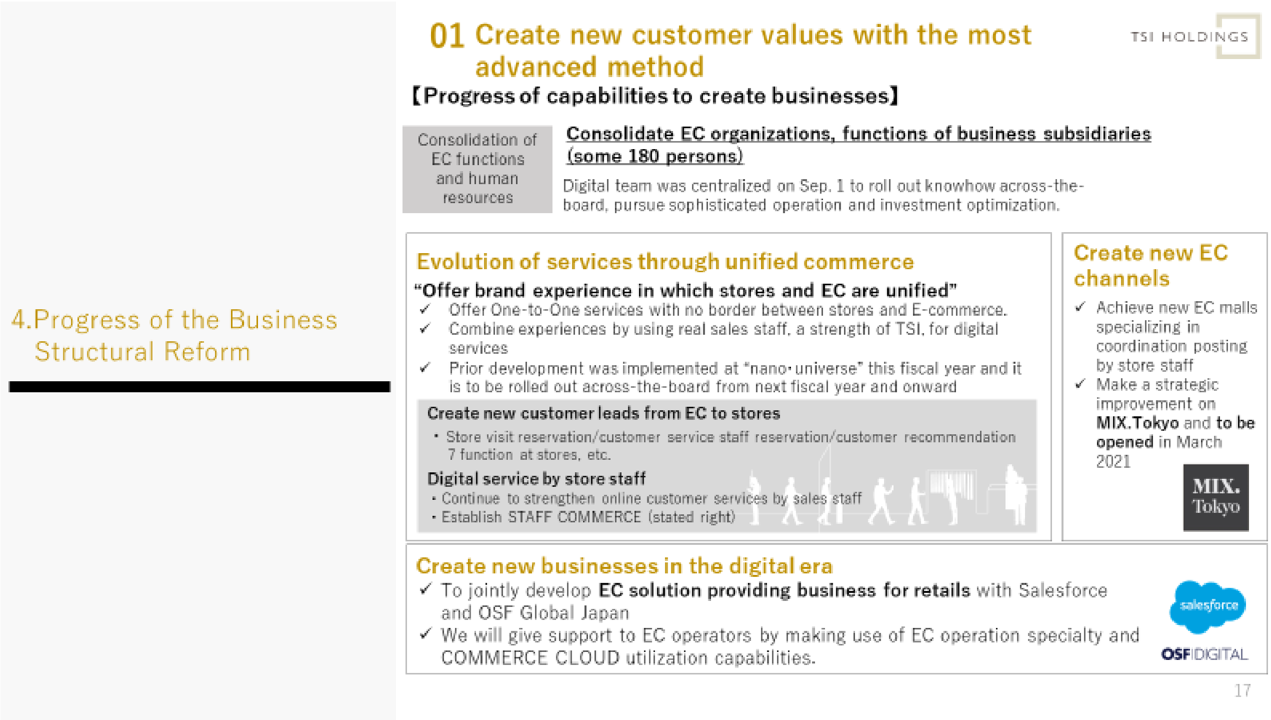
The aim of this structure is to increase the speed of decision making by clearly dividing supervision and execution first. This executive team has to cut the distance from the CEO to the front line of the field. For business divisions, companies that will consolidate without leaving their corporate status and those that will remain will be consolidated into five business divisions.

We believe that the individuality of the brand is extremely important, so we basically have the autonomy to distinguish the individuality of each brand business in terms of products, service at stores, and customer service. However, in order to combat the situation in the future, we will form a team across the Group in areas where it is better to invest together and increase competitiveness.

First, the digital team I mentioned earlier. This digital team, which is involved in ecommerce, digital marketing, and new Digital Businesses, was first integrated, but similarly the supply chain force will also be integrated. The same applies to overseas expansion, new business development, sales support, and store development.

In addition, the entire Company is listed as DX. Administrative divisions will be unified across the Group as corporate divisions to improve efficiency.

The major intent of this reorganization is that these key cross-functional functions support the business and effectively operate each company in a matrix organization that makes quick decisions.



This is a typical cross-divisional example, but the integration of the functions of the EC and digital teams I mentioned earlier now has a team of just under 200 people. Even within the industry, I do not mean that we should be large in scale, but I believe that a large and advanced team has been created.

This is at the center of our support for digital customer service and digital dissemination from our stores. In addition, we are going to do the next step by opening a group-wide coordination site in March, using the existing infrastructure of MIX. Tokyo for EC malls specializing in coordinated postings.

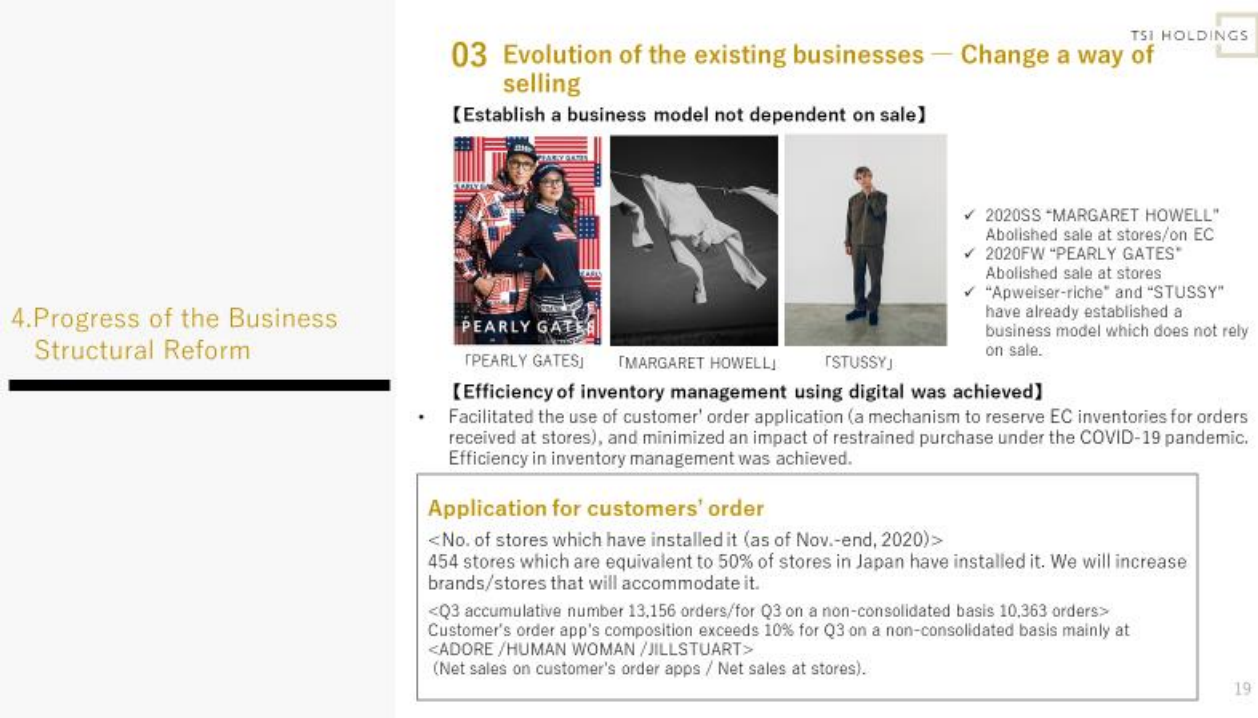
In addition, we are working with the world's top technology companies to build knowledge that has been incorporated into our business, and we are considering external sales as a B2B Business. Our B2B Business, we think, is not a traditional retail agency, but basically provides a few solutions for digitized retail.

One of these is the joint initiative of three companies to provide ecommerce solutions for medium- and small-sized businesses, in collaboration with Salesforce and other companies announced yesterday.

On the other hand, globalization is also a major point, but in terms of Global × Digital, the company called TACTICS, which we acquired last year, as I told you earlier, has been consolidated from the second quarter. It is a business that is growing significantly in terms of second quarter and third quarter outlook even compared to the previous year.

This is a business that specializes in skateboards and snowboards that is almost entirely complete with ecommerce even though there are some stores. The reason for this strong performance is actually the portion of digital marketing. We are very successful in building a digital community for this.

We build a community of such loyal customers and engage in digital-centric, full-price sales. It is a company that embodies our group strategy. This TACTICS team has begun working with the street brand EC・digital marketing called HUF.

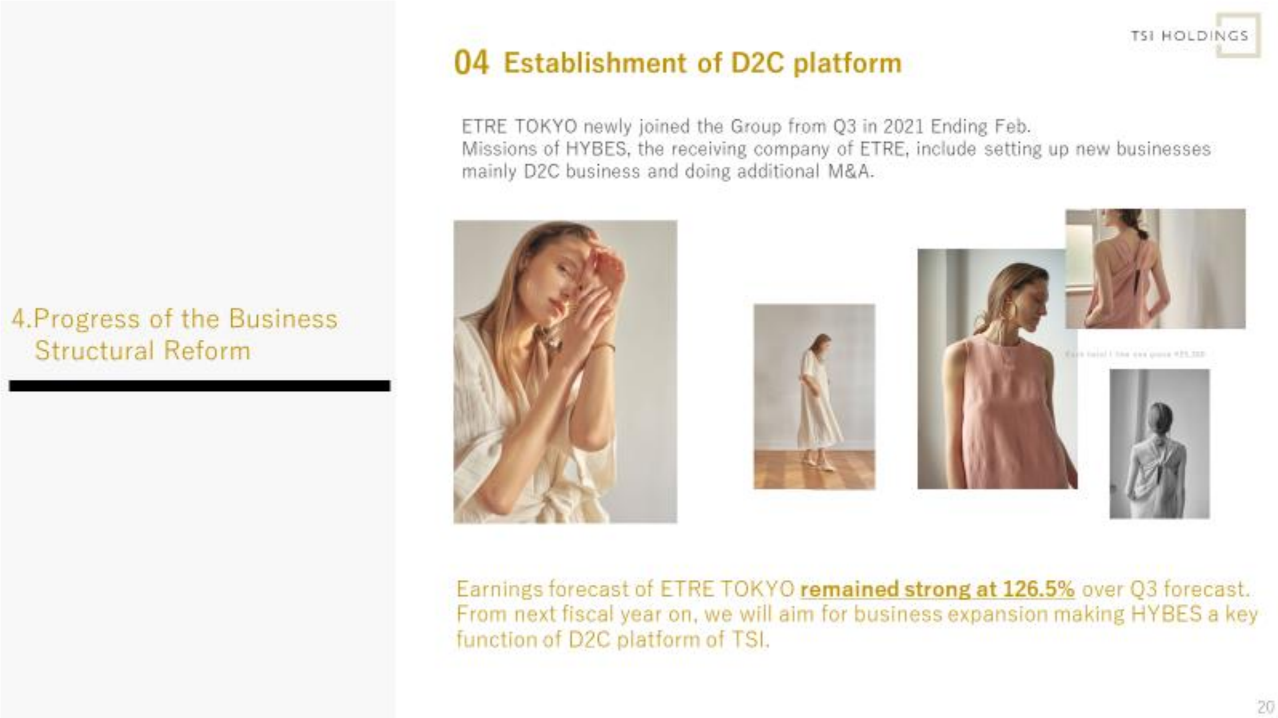


To date, there have been brands such as Apuweiser-riche and STUSSY that, in principle, do not sell in stores. However, MARGARET HOWELL and PEARLY GATES, which have resulted in brand characters , stopped discount sales in this fiscal year. These brands have reached the mid-term goal of approaching 80% of the full-price consumption rate.

One of the most important aspects of full-price sales is a customer order app. This is a system in which customers try out different colors and sizes when the stores do not have the colors or sizes customers want, and then reserve those items from the EC inventory on the spot and ship them directly to the customer's home. Settlements are done on the spot through the cash registers of the stores.

We have been introducing this system since last year, but it has finally been introduced to approximately half of all domestic stores, to 454 stores. There is a difference in this area due to the timing of introduction and the problem of familiarity with usage. However, in the brands that we began using ahead of the competition, particularly department store–affiliated brands, the ratio of sales of this ecommerce inventory being ordered and sold exceeds 10% of sales at stores.

In other words, roughly speaking, one out of 10 people purchased items from the inventory that is not available at a store after they had a customer service. This is a very important inventory-centralization mechanism in the sense that it is 10% or 20% off compared to before, and that produces a steady sell. We will intro



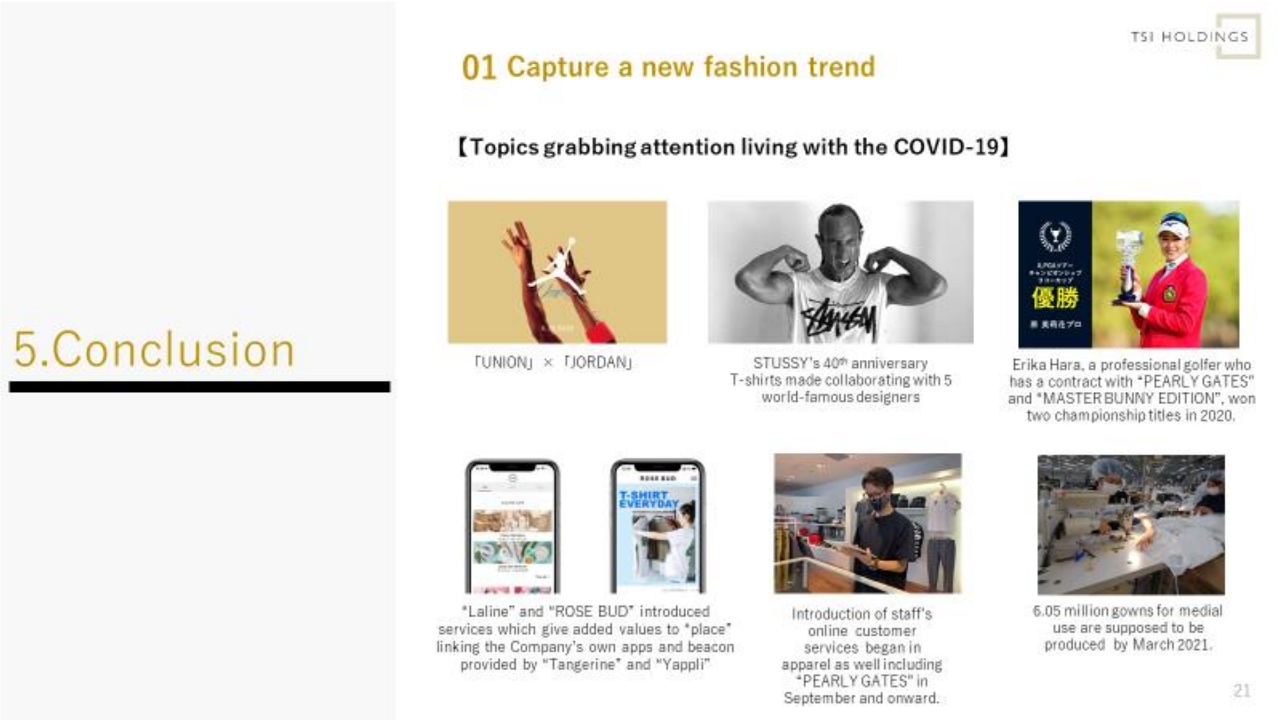
duce this system to all stores and brands.

Similarly, as for digitization, we have been engaging in not only digitization of existing businesses but also increasing the number of digital native brands. We launched a company called HYBES, a D2C platform. This has started to work.

What is growing there is the D2C brand, ETRE TOKYO, we acquired last year, but since joining us, it has grown steadily to 126.5% under these circumstances.

Naturally, we decide production while keeping a close eye on the response of our customers, so by producing only the quantities that we are able to sell well, this is an extremely lean method of selling that is then linked to our customers.

We will continue to grow this business, but rather than simply increasing the size of one brand, we are now planning to add several new D2C brands to this platform. We plan to increase and add our lineup of new brands to two or three more brands soon, on this platform.



As it is fashion, finally, I think it is important not only to talk about such a system or cost reduction, but also to talk about fun stuff.

For example, our purpose of collaborating with our select shop called UNION and JORDAN, Michael Jordan, as well as by collaborating with Rick Owens and our STUSSY is for our customers to enjoy fashion once more.

In terms of golf, a professional golfer, Erika Hara, who wore our PEARLY GATES and MASTER BUNNY brands and made a great success in golf contributed to our customers' buying those brands and playing golf. This is a favorable cycle. I think that the Brand Business is functioning in the form of a community-oriented approach, rather than just selling clothes, and that the cycle of encouraging the golf market to take part in the purchase of clothes as a result is functioning as a Brand Business.

We have a business with a tech venture called Yappli, which listed in last December, as a core partner since the time of its founding. We have them develop native apps for each of our brands on consignment.

In addition, we have implemented a beacon function to detect store visits, and we are advancing alliances with technology companies on a daily basis, whether ventures or major companies.

And for online customer service, this is still due to a limited brand, but it is extremely good, so we are also aiming to introduce all brands.

As one of our social contributions, we are now planning to produce 6.05 million medical gowns by March. Costs are steadily declining, so we are now able to provide them at extremely low prices.

We will proceed medium-term reforms accordingly because we are not in a state of letting our guard down. At any rate, we will streamline our organization to increase management speed. Regarding sales, we will conduct full-price sales with a small inventory. With regard to Digitization and Overseas Businesses, we will basically move forward focusing on digital.

Since the market will not return to its original position, the key point is to change to a structure that can firmly increase profits by reducing income and increasing profits.

This is all.

Yamada: Thank you very much.

[END]

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Document Notes

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2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
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