



TSI HOLDINGS

TSI HOLDINGS CO., LTD.

Financial Results Briefing for the Fiscal Year Ended February 2021

April 13, 2021

Event Summary

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[Participants]	
[Number of Speakers]	1 Tsuyoshi Shimoji President and CEO

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Question & Answer

Moderator: We will now move on to the question and answer session.

This is a question from Ms. Kabeta of Senken Shimbun.

You mentioned your vision for the year 2024, but I would like to ask if you have set any numerical targets for sales, operating income, etc. for that point in time.

For this, I would like to hear an answer first from Shimoji.

Shimoji: This is Shimoji Thank you very much. I would like to respond to your question regarding vision.

Our goal is to achieve an operating income of 10% by 2024. This is a very high level, but by setting this level, actions will be decided from now on. We will continue to strive toward this goal.

By setting the sales amount, it has happened in the past that the purchase of goods is adjusted to the sales. Once that is under control, we want to focus on how to purchase products that will generate a solid profit, how to purchase compact products, and how to sell them quickly.

Of course, we will come up with sales targets in the future, but our first goal is to secure profits, and I personally think that we should set a target of 10% operating profit for 2024.

We will continue to work towards this goal.

Moderator: We haven't released specific figures yet this time, partly because of the Coronavirus crisis, and partly because we are now in the process of re-drafting the specific sales plan internally. Though we cannot reveal specific figures yet, internally, we have started with a target of 10%.

Kabeta: Thank you very much.

Moderator: Now, I would like to move on to the next question. We have a question from Ms.Miyajima of Nikkei.

What is the level of inventory to be maintained? I'm asking you to tell me what your target value is.

Shimoji will answer on this one.

Shimoji: We are aiming for less than 80% compared to the year before last. We will further reduce the ratio from approximately 85% in the previous fiscal year.

We will improve our inventory turnover, so we will focus on inventory turnover more than numerical targets and improve those figures. In short, we would like to change our basic stance on inventory by purchasing in small quantities, digesting quickly, and selling out. That's all.

Moderator: Ms. Miyajima, are you satisfied with your answer?

Miyajima: It's okay. Thank you.

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Moderator: The year-end inventory at the end of the current fiscal year was 84.9% of the previous year's level, so I hope you understand that we are continuing our efforts to control inventory in the first half of this fiscal year.

Now I would like to move on to the next question. We have question from Mr. Motohashi of WWD.

I would like to know what kind of leverage you are going to give to the commuter wear and occasional brands, including the priority brands.

Shimoji will answer this question as well.

Shimoji: Thank you for your question.

With regard to nano universe and NATURAL BEAUTY BASIC, the market for commuter wear, including occasional wear, is in a very bad situation, as you mentioned.

Nano universe used to be a select store. As a branding approach that allows us to propose more interesting and fun products, we are reconfiguring the way we express our production using our brand contents.

We are thinking of creating a new nano universe world view from this fall/winter, and we want to bring out the new nano universe colors.

In order to achieve this, we would like to introduce a creative director who can create a different world view for nano universe than before.

In addition, we want to bring the perception among people that the brand of NATURAL BEAUTY BASIC is not only for commuting and occasions, but also for a variety of lifestyles through clothing such as yoga and relaxation wear. We are also working on the development of clothes with new functions, which we would like to try.

Also, you mentioned the shift to larger, highly profitable stores, as well as the shift to EC stores. Of course, the standard size of stores and the number of stores will depend on its content, but generally we are thinking of reducing the number of stores. However, before that, we would like to move on to how to improve the content of our current stores and assets, and we have started to examine the content of each store.

Therefore, I would like to break away from the homogenization and change the store to one where people can have fun.

Moderator: Mr. Motohashi, are you satisfied with your current answer?

Motohashi: I'd like to add something else. I'd like to ask if it's correct to say that nano universe will be introducing a creative director system, which was not previously in place.

The second point is that you are promoting a close examination of high-profit and low-profit stores, but could you be more specific about what you mean by this?

Shimoji: First of all, there has never been a creative director at nano universe. Each of us had our own buying role, and each of us had our own job and role to play.

This means that the formation of nano universe itself will start expressing and editing the contents of all the brands within the group. I am the creative director for this.

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Regarding the highly profitable stores, first of all, we will focus on the SPA business model. There are golf brands, military brands such as AVIREX, and SPA-type brands.

With regard to the products, in order to run a single store, we are not going to display all the products we have, but rather we are going to give the products more, stronger characteristics. As a way to capture this, we would like to introduce/display other brands as well, to ensure fun and excitement of the storefront.

We have also introduced digital live streaming and HERO last year, and sales have been growing steadily. We would like to make it possible for us to appeal to our customers through events such as these. That's all.

Moderator: Thank you very much.

Mr. Motohashi, was this sufficient?

Motohashi: Yes. Thank you very much.

Moderator: Thank you very much.

Now for the next question. This is a question from Mr. Nakajima of the Asahi Shimbun regarding the sales plan for this fiscal year.

Compared to the year before last, we mentioned that it was 87% in the first half and 91% in the second half. The question is, how did we get these numbers?

Originally, we had planned the first half of the year to be a little stronger, but internally, we made a slight downward revision due to the impact of the Coronavirus. The Corona-related factors are quite difficult to forecast, and I'm afraid I'll have to modify it frequently.

If you have anything to add on that, please let us know, Shimoji.

Shimoji: We have set numerical targets by multiplying the current figures, but we have included the forecast for future Coronavirus infections.

In addition, we have added up the figures that the general managers of each line of our brand would like to achieve.

I'm sure you feel that this is a very high number, but I believe if we try hard there is no necessity to modify it. We are preparing for this goal accordingly.

Moderator: Thank you very much.

Dear Mr. Nakajima, I hope we have answered your question.

Nakajima: Yes, it's fine. Thank you very much.

Moderator: Thank you very much.

Now, I would like to move on to the next question. This one from is from Ms. Ito of FASHIONSAP. The question is about shifting sales channels from EC.

Since he is asking if there is a possibility that a brand that is not growing in sales will be terminated, I would like Shimoji to answer this point first.

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Shimoji: I will answer.

I think it is safe to say that brands that do not grow in sales through EC may be terminated.

As for the specific withdrawals of brands at this moment, I cannot give you any names, but we are examining various options. However, in the last fiscal year and the two previous fiscal years, we have sold some businesses and withdrawn some brands. We believe that we have completed our initial plan.

However, I wonder how we can grow in the future. We are now in the process of examining whether or not the team, including the creators, will be able to perform well. That's all.

Moderator: Thank you very much.

This was the right question, right?

Ito: Yes, thank you very much.

Moderator: Now, I would like to move on to the next question. This is Mr. Ichikawa from Sen-I-News.

The question is whether there will be any change to the management policy to aim for a 50% EC ratio and a 80% digestibility rate.

I would like Shimoji to answer this question, in chronological order from the challenges of the current digital shift.

Shimoji: Thank you for your question.

As for the EC conversion rate and the digestibility rate, the EC conversion rate has been increasing very effectively to the point where it is close to 50%. We would like to achieve a 50% EC conversion rate here.

In addition, there are still some major issues to be addressed regarding the 80% proper digestibility rate. However, I understand that this is where we should be aiming. In reality, the buying of select products as well as in the SPA business, it is very difficult to achieve the current 80% proper digestibility rate.

However, regarding the former, I believe that we can get closer by selling off in a narrowly focused manner. And, by changing the point of sale, we can increase the digestibility even more.

Also, we are trying to improve the inventory turnover rate, as we mentioned at the beginning, so that the digestibility can be effectively increased. Thus, we will continue to see it as the biggest challenge.

Moderator: Thank you very much.

Mr. Ichikawa, we hope we have answered your question correctly. It seems to be okay. Thank you very much.

Now, let me move on to the next question.

I would like to ask you to be a little more specific about the recycling business in Yonezawa, which you mentioned earlier. If there is anything else that you can say in addition to the presentation, I would like Shimoji to talk about it.

Shimoji: There are several candidates for the brand. Since we are planning to make a company-wide attempt, the products that can be reused will be basic items, so we are starting with NATURAL BEAUTY BASIC as our first candidate.

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Naturally, once the relationships and flows are established, various content brands are expected to join in.

As for the question of whether we should sell remakes and alterations as an added value of being environmentally friendly, I think it depends on the contents, but we would like to demonstrate nonetheless that we do remakes and alterations. That's all.

Moderator: Is this answer sufficient?

Questioner: Yes, thank you.

Moderator: Now, I would like to move on to the next question from Mr. Watanabe. The question is about the gross margin assumption.

If we follow this quarter's policy, it will be unlikely that the gross margin will worsen, compared to the most recent February quarter of 2021, what do you think?

Let us have Shimoji touch upon this point first.

Shimoji: The gross profit margin was about 47% in the previous fiscal year, but as EC continues to grow, the gross profit margin will worsen. There are a lot of measures that come into play. So I think the issue will be to maintain the balance here.

We would like to find the right balance between increasing EC sales while keeping physical store sales in check as a whole.

Company Representative: Thank you for your answer.

Moderator: Is that all right?

Shimoji: I would like to add that we will be strengthening our proper sales. Thus, in terms of the growth rate of EC and the awareness of proper sales, we need to make as many sales as possible. We will consider including areas where we do not increase the discount rate for sales.

For this reason, as I have been saying for a long time, our approach to products and inventory is to sell off by keeping as little as possible.

Company Representative: Thank you very much.

Moderator: Now, I would like to move on to the next question. We have a question by Mr. Kanzaki of Tsuhan Shimbun.

The question is what does the check-in stand for the unified commerce strategy?

As Watanabe is in charge of EC at the secretariat, we would like Watanabe to answer this question.

Company Representative: My name is Watanabe, and I am in charge of the EC.

The check-in stand itself is a device installed at the entrance of a store that allows customers to check in with their smartphones when they enter the store.

When a customer checks in, they have access to various actions in both physical and EC stores, receive recommendations, or send out content et cetera.

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It is a digital tool to support sales as well as customer experience. That's all.

Moderator: Mr. Kanzaki, was that okay?

Kanzaki: Does that mean that the customer has to download the app in order to check in?

Company Representative: Now, this measure of check-in stand itself is based on the premise that you download the app.

Kanzaki: I understand. Thank you.

Moderator: Thank you very much.

You have now answered all of your questions. Do you have any additional questions?

If you have any questions in the future, the PR department would be happy to take care of it via 1-to-1 meetings et cetera. From now on, you can also register through the schedule on the Minsetsu app, so we hope you will use that as well.

With that, I would like to conclude the financial results briefing.

Thank you very much for your time today.

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