



TSI HOLDINGS

**TSI HOLDINGS CO., LTD.**

Q1 Financial Results Briefing for the Fiscal Year Ending February 2022

July 5, 2021

## Event Summary

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<b>[Company Name]</b>	TSI HOLDINGS CO., LTD.	
<b>[Company ID]</b>	3608-QCODE	
<b>[Event Language]</b>	JPN	
<b>[Event Type]</b>	Earnings Announcement	
<b>[Event Name]</b>	Q1 Financial Results Briefing for the Fiscal Year Ending February 2022	
<b>[Fiscal Period]</b>	FY2021 Q1	
<b>[Date]</b>	July 5, 2021	
<b>[Number of Pages]</b>	8	
<b>[Time]</b>	10:00 – 10:55 (Total: 55 minutes, Presentation: 29 minutes, Q&A: 26 minutes)	
<b>[Venue]</b>	Webcast	
<b>[Venue Size]</b>		
<b>[Participants]</b>	68	
<b>[Number of Speakers]</b>	3	
	Tsuyoshi Shimoji	President and CEO
	Hiroyuki Watanabe	Executive Officer, General Manager of Digital Business Department
	Kohei Yamada	Manager of Corporate Communications & Investor Relations Office

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## Question & Answer

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**Yamada:** Now, I would like to continue on to the Q&A session.

The first question. This is regarding gross profit on page 8.

Will the promotion of digestion of products that did not have a sales opportunity in the previous fiscal year at a fixed price continue this fiscal year? Also, I think there is the issue that the trend is changing, but how will you devise ways to sell at stores? One question is whether any brands are strongly effective.

The second question is about direct store sending. It is about when it is expected to be available and how effective it will be in reducing logistics costs.

Now we will have Shimoji answer both of these.

**Shimoji:** Thank you for your questions.

First of all, we will continue to promote the digestion of products that did not have sales opportunities in the previous fiscal year at a fixed price.

Basically, other than the new products, we have not yet put out the products to be sold at a fixed price, including some carry items, so in such a place, we would like to put out products with a solid standard element.

As for the second question, first of all, we are building a system for direct sending to stores, and so I think that it will be around next year or the following year at the earliest.

However, with regard to some things that will require a large amount of things, I think that it will inevitably start in conjunction with the logistics part, so I think it will take about another 3 years for everything to switch over. Instead, I would like to start directly sending to stores with overseas first.

With regard to logistics costs, we plan to start transferring 30% of our total from overseas in 3 years and then send them directly, so we believe that costs will decrease in advance. As for costs, we are in the middle of estimating the price of B2C on a scale that has been reduced. That's all.

**Yamada:** Miyajima, does that answer your question?

**Miyajima:** That's fine. Thank you.

**Yamada:** Thank you.

Now, let me move on to the next question. From Jiji Press.

Please tell us more about what you said at the beginning regarding the recovery of apparel industry being severe in detail? This we will also have Shimoji answer.

**Shimoji:** First of all, regarding the recovery of the apparel industry, I think it will be based on how long store closures and shortened store hours will continue due to COVID-19. Of course, there are ecommerce sales, which is supported by a fairly wide range of customers.

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In that sense, to some extent, there are still many customers in their 40s, 50s, and 60s who still want to purchase at physical stores rather than through ecommerce, but if there is still a situation of store closures, there is a situation where they cannot accept that and realistically do not enjoy shopping.

We understand that the market conditions for apparel are not as easy as before, regarding the fact that the customer service part cannot be performed and where products cannot be touched and then purchased. That's all.

**Yamada:** Kakuta, does that answer your question?

**Kakuta:** Yes. Thank you very much.

**Yamada:** Thank you.

Also, as we mentioned earlier regarding the new product at "PEARLY GATES", when I looked at the homepage, it was almost sold out. Thank you.

Now, let me move on to the next question.

Will measures for the development of urban brands and the focus of the brand business shift to strong street-casual and athleisure brands in the future? This is a question about market trends and future strategies, so we'll also have Shimoji answer.

**Shimoji:** Thank you for your question.

Our measures for the restoration of urban brands have tended to be in recent years, but the needs of products have also changed due to the rapid closure of stores due to the pandemic and also changes such as teleworking and other work practices.

As a countermeasure, we are promoting more casual styles especially with regard to "Natural Beauty Basic", which is one of the largest conventional brands, and brands with a focus on occasion demand. Therefore, we are promoting products that can be worn in a more relaxed fashion as everyday wear.

In addition, we have assessed that the need for relaxed work clothes is increasing due to a change in fashion consciousness, where customers are preferring wear that is more comfortable, so changes in brands has already begun, and corresponding products are increasingly scheduled to be released.

In addition, we plan to propose products that are more casual and have increased functionality, including in autumn and winter, as well as next year spring and summer.

**Yamada:** Motohashi, does that answer your question?

**Motohashi:** Yes. Could you answer the second half focusing on the brand business?

**Shimoji:** With regard to strong street-casual brands, we will continue to grow, and I think there is a possibility that new brands are a possibility.

As far as we can see, we believe that the market for athleisure, street-casual, and action sports will be very high for another 3 to 5 years, so as you pointed out, we will focus on that.

**Motohashi:** Thank you very much.

**Yamada:** Thank you very much.

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So here's the next question.

Watanabe is asking what kind of evaluation SG&A expenses are based on the plan, and what will happen to this in Q2?

For this, we will also have Shimoji answer.

**Shimoji:** As I mentioned, we are now in a state of less than 50% in terms of SG&A expenses for the first quarter, so I think it is a successful score.

In addition, we are thinking about the top line in the second quarter due to the impact of COVID-19 and trends due to the Olympics. I think that the reduction of fixed costs is solid, but if sales fall below a certain amount, the fixed ratio will go up and the breakeven point will be severe. Therefore, we are concerned about variable costs due to sales, so we will respond with caution in the future. That's all.

**Yamada:** Watanabe, does that answer your question?

**Watanabe:** Thank you.

In that case I would like to ask a follow-up question. I think that the SG&A plan for the second quarter is expected to increase by JPY2.5 billion compared to the previous year, but are there any special factors? Thank you.

**Yamada:** May we figure that out and answer later?

**Watanabe:** Yes. Thank you very much. That's it from me.

**Yamada:** Thank you very much.

Now, we would like to take the following question from Hanai.

This is a plan for sales trends of 80% in the first half and 91.1% in the second half of the fiscal year compared to 2 years ago. What are the sales trends of golf, athleisure, and street-casual, and the sales trends of occasion select compared to 2 years ago? In other words, are you asking about this year's plan compared to the plan 2 years ago, Hanai?

**Hanai:** That's right. In the second half, especially when you see a recovery of about 90% compared to 2 years ago, I think that the recovery of golf, street-casual, and athleisure based on your company's own factors, and the recovery of other brands are end up being different combined numbers, so I would like to know each trend value. In particular, I would like to know how you view the recovery of occasion select brands. I would also like to know how you imagine how it will recover from next fiscal year onwards. Thank you.

**Yamada:** I understand. There is a premise that the most recent trends are very difficult to read, but I would like to have Shimoji talk about this, including the subjectivity of the situation.

**Shimoji:** First of all, we have made pages for our strong brands, and we have put figures for 3 brands, but PEARLY GATES has increased from JPY3.26 billion in the fiscal year ended February 2020 to JPY3.92 billion this fiscal year.

Regarding HUF, this is a total of JPY1.49 billion in the fiscal year ending February 2022, up from JPY1.08 billion in the fiscal year ended February 2020.

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UNDEFEATED also increased from JPY1.13 billion in the fiscal year ended February 2020 to JPY1.28 billion in the fiscal year ending February 2022.

To some extent, this is a part of the growth of sales in stores and ecommerce, and I think that it will develop greatly in the future and I do not think that there is any hint that this will go down at this time.

However, as I mentioned earlier about occasion's unwell stores and brands, numerically, we received significant damage compared to the previous fiscal year. As for this, it has been gradually recovering.

It has been recovering, however basically the demand for commuter clothes has not increased much, so we would like to bring it back by proceeding with some casualization.

Since we have stores, we believe that we can create a recovery trend by proposing new products. We would like to change the style that has been up until now, and make and propose a new and more casual one, including the design.

**Hanai:** Thank you. Will it be a sense of continuation of it now for the next fiscal year and beyond?

**Shimoji:** Yes, that's right. I hope you can get an idea of it with that. In addition, we are preparing to propose a new brand, which we are currently developing.

**Hanai:** Thank you very much.

**Yamada:** Thank you very much.

Also, as Watanabe asked earlier, basically this is not an increase in the fixed cost portion, as there are many investment-related parts. In particular, system investment, ecommerce investment, logistics investment, and some of these areas are implemented as a plan, and as Shimoji mentioned earlier, there are areas such as the Olympics and COVID-19 which make the second quarter very opaque, so with regard to strategic expenses, whether or not we actually use them to judge will be decided with us keeping a close eye on the recovery of the market.

Watanabe does this answer your question from before?

**Watanabe:** Thank you very much, yes.

**Yamada:** Thank you.

Is it safe to say that structural reforms, including the closure of unprofitable stores, are almost completed?

I will also have Shimoji answer this.

**Shimoji:** As for the unprofitable stores you asked about, we will continue to implement structural reforms.

Currently, the current market situation is not visible, but there are still small deficit businesses among existing brands. Since we would like to make such reforms, we would like to address the reform of the business structure itself as a major issue, including the role of people and jobs, including stores. That's all.

**Yamada:** Ichikawa, that answers your question, right? Thank you.

Thank you for the next question. It is about ecommerce sales.

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This is the first time you have exceeded JPY10 billion, but could you tell us about the prospects for ecommerce sales for the full year?

As for this question, the person in charge of ecommerce happens to be here, so we will have Watanabe respond.

**Watanabe:** I'm Watanabe, in charge of ecommerce.

For the full year, we have an initial budget of JPY44.3 billion. Regarding this, it depends on how we read the market trends that follow, but based on this situation, we believe that it will become a line of achievement after factoring in such a situation. That's all.

**Yamada:** Ito, is that okay?

**Ito:** Understood. Thank you very much for your answer.

**Yamada:** Thank you, Ito.

Are there any more questions? Please wait for a little while.

During this time, I would like to announce that the Company passed the certification as a DX certified business operator based on the DX certification system established by the Ministry of Economy, Trade and Industry last week on Friday. A press release will be issued at a later date.

There seem to be only about a few dozen companies that have applied.

So, there seem to be no more questions, so I would like to end our first quarter financial results briefing. Thank you very much for today.

**Shimoji:** Thank you very much.

[END]

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