



TSI HOLDINGS

TSI HOLDINGS CO., LTD.

Q2 Financial Results Briefing for the Fiscal Year Ending February 2022

October 6, 2021

Event Summary

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[Participants]	64	
[Number of Speakers]	2	
	Tsuyoshi Shimoji	President and CEO
	Norihiro Ishihara	Manager of Corporate Strategy

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Question and Answer

Moderator: Now, I would like to move on to the question-and-answer session.

We have several individuals of the Company present today as secretariat, so if necessary, someone other than the President may be able to answer your questions.

First question. Thank you, Mr. Miyata. You asked for a comment on the termination of the state of emergency from October onwards. Shimoji will answer this question.

Shimoji: Thank you for your question, Mr. Miyata.

Now that the declaration of the state of emergency has been lifted, we will continue to work on preventing the spread of the coronavirus, while at the same time offering new products and services that will bring cheer to everyone.

Although the weather conditions are still not stable, we are working on measures to energize our stores by providing more autumn and winter products and trendy products for our customers.

Moderator: Mr. Miyata, was my answer sufficient?

Miyata: Also, I think there will be a lot of differences in the operating system along with the termination of the emergency declaration. What are the differences in the purchasing behavior of customers or the sales system of landlords?

Shimoji: First of all, the way I see it, approaches to encourage customer store visits include both digital tools and actual direct mails.

Therefore, during the period of the emergency declaration, our stores, including the store staff, had to work in a somewhat limited manner. During this break, we also conducted sales training.

However from now on, we will firmly prepare ourselves to serve our individual customers in a courteous manner. I think this will be the case from October onward.

In addition, the shopping malls are also very positive about the various new measures and products that are being developed. We are planning to work together to achieve this goal.

Miyata: Thank you very much.

Shimoji: Thank you very much.

Moderator: Now, I would like to move on to the next question. It's from Mr. Sugie's on the Golf Business.

The question is, is this the first time that the Golf Business has exceeded JPY10 billion in the first half of the fiscal year? Also, will you disclose a full-year forecast for it, as well as a list of sales by top brands?

As for the Golf Business itself, it grew year by year, reaching a record high this term.

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Brands Overview

Unit: Million Yen

	1ST Half 2021 Ending Feb.			1ST Half 2022 Ending Feb.			Y/Y	
	Sales	Composition Rate (%)	Gross Profit Ratio (%)	Sales	Composition Rate (%)	Gross Profit Ratio (%)	Sales (%)	Gross Profit Ratio (pt)
1. nano · universe	8,004	14.2	36.1	7,598	11.7	46.2	94.9	+10.1
2. PEARLY GATES	5,315	9.4	47.2	7,136	11.0	63.6	134.3	+16.4
3. MARGARET HOWELL	3,509	6.2	43.4	5,173	8.0	66.4	147.4	+23.1
4. NATURAL BEAUTY BASIC	5,066	9.0	43.1	4,978	7.7	58.8	98.3	+15.6
5. HUF	1,778	3.2	45.6	2,749	4.2	51.2	154.6	+5.6
6. AVIREX	2,359	4.2	55.4	2,535	3.9	59.4	107.4	+3.9
7. UNDEFEATED	1,887	3.4	40.6	2,493	3.9	41.7	132.1	+1.2
8. STUSSY	2,049	3.6	62.9	2,076	3.2	70.1	101.3	+7.2
9. ROSE BUD	1,839	3.3	34.5	1,669	2.6	45.0	90.8	+10.5
10. new balance golf	1,069	1.9	37.1	1,646	2.5	57.8	153.9	+20.6
TOP10	32,880	58.4	43.6	38,057	58.8	56.6	115.7	+13.0
Other Brands	21,479	38.2	42.6	26,649	41.2	51.6	124.1	+8.9
Continuing Brands	54,360	96.6	43.2	64,707	99.9	54.5	119.0	+11.3
Closed Brands	1,910	3.4	35.7	43	0.1	114.0	2.3	+78.3
TOTAL	56,270	100.0	43.0	64,751	100.0	54.5	115.1	+11.6

As for the sales by brand, we have disclosed them on our website, and the top 10 sales are disclosed on page 38 of the supplementary materials.

Pearly Gates came in second, reaching the same result as in the 1Q. Then this quarter, New Balance Golf is in the top 10 for the first time, which is a notable fact.

Mr. Sugie, was my answer sufficient?

Sugie: Yes, thank you very much. I understood.

Moderator: Thank you very much.

Now, I would like to move on to the next question from Mr. Watanabe. This is about the plan for the second half of the year.

The question is, it seems to be 12.7% YoY, but I was wondering whether you could explain a little bit more about the gap in the earlier slide.

The explanation on page 31 was basically a YoY comparison, so the part about the second half of the current fiscal year might have been a little difficult to understand.

Watanabe: I might have overlooked some of your company's materials, so I apologize for some of the misunderstandings about the previous 2 years' comparisons.

How do you see the current sales following the situation in September, and how do you see the numbers coming up quantitatively in the second half of the year, from now through October, November, and December? In the previous year, people were relatively active after October because of the GoTo Travel program, so I was wondering if you could give us a breakdown of how you are looking at it this year. I'm looking forward to hearing from you.

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Moderator: Okay. We were talking about the 3 scenarios briefly earlier, but Ishihara will give you a supplementary answer.

Ishihara: This is Ishihara from the Corporate Strategy Office. Let me answer your point.

We have not yet determined the current market conditions for the month of September, so I cannot give you specific figures here, but we expect the figures to be quite tight against the budget.

However, the numbers for Saturday and Sunday in the first week of October are now on a recovery trend since the state of emergency was lifted on October 1. Initially, we were aiming for a level between 96% and 104% of the previous year's level, but the situation is unpredictable.

There is still a good chance of a quick recovery in some areas, such as through GoTo Travel, but it is still unclear whether the apparel area will recover quickly. I think we should be a little cautious about how far the recovery will go in the 3Q.

Also, we will continue to focus on the growth of EC, and we are confident about it, but since EC grew considerably in the previous year, it is rather difficult to see further enormous growth from here. Thus, I think it will be a very conservative figure. We would like to stick with the figures we have presented for the time being.

Moderator: Mr. Watanabe, what do you think?

Watanabe: Thank you very much. I'm looking forward to the next time. Thank you very much.

Moderator: Thank you very much.

Now, I would like to move on to the next question. This is a question from Mr. Soejima.

The question is, how are you dealing with the impact of the coronavirus in Vietnam and other Southeast Asian countries, as well as the power shortage in China? May I answer this question?

In Vietnam, the initial plan was for a lockdown until the middle of September, but as it turned out, the lockdown was extended until the end of September, and the response on the local side was quite upsetting.

As a whole, for each product, if there is a delay of a few weeks, the MD will basically take care of it, and if there is a delay of several months, the response will vary greatly depending on where the raw materials are located. We are currently working on transferring those items that can be transferred to other production areas.

Also, the power shortage in China has been widely reported recently, but this issue often came up during the last 10 years or so. At the moment, this has not become a major problem, but I think we need to be very careful and look at the information we have in the future.

Shimoji: However, I think that there will be a shortage of ships and containers due to air transportation. Therefore, I think that the current situation is that it is difficult to predict the cost of logistics, both domestically and internationally.

While narrowing down the production volume, we are making arrangements so that we can quickly deliver products to the store. Thus, even if there will be some discrepancies, we believe that we will be able to deliver the products and make proposals to our customers without causing any major problems.

Moderator: Mr. Soejima, how do you feel about the answer Shimoji just gave?

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Soejima: Yes, it's fine. Thank you.

Moderator: Thank you very much.

Now, I would like to move on to the next question. This is a question from Mr. Ichikawa.

The questions is, with the unseasonable weather in September and the high temperatures in October, are you considering changes in the production volume and design of coats and other products?

Shimoji: Thank you, Mr. Ichikawa.

First of all, the temperature is still high in October. While rumor has it that a cold wave is coming due to the effects of La Niña, combined with the trend of power shortages in China, the reality is that the temperature is like this.

We have been developing inner wear and medium and light clothing as a countermeasure to global warming, so in terms of design, we are trying to create clothing that can be worn in layers, or clothing that looks solid as outerwear but is very light on the inside. There is no doubt that there has been a shift in design towards products that are as light as possible due to the evolution of cotton padding and that have a thin finish.

As a result, we are now able to propose products that are designed with functional materials and functional effects in order to deal with climate change to a certain extent, which is somewhat different from the past.

Shimoji: The movie *Top Gun* is scheduled to be released in November this year, and we have a brand called Avirex, so we were thinking of using tie-up products with that brand to effectively promote the movie. However, the release of the film has been postponed until next May, so the worldwide announcement was delayed. We are happy to announce that the MA1 for fall and winter has been selling very well in stores, and customers and fans are buying it.

In addition, we at nano · universe are continuing to strengthen outerwear using down feathers from Nishikawa Down, and we are also strengthening style sales of medium and light clothing.

As for Nishikawa Down, we have been presenting it as an item to strengthen sales in our stores, including pop-ups, in combination with innerwear for light clothing from the early stage. We are taking action to increase awareness of our products and to sell them to the public.

Was that sufficient?

Moderator: Mr. Ichikawa, what do you think? Thank you.

Now, I would like to move on to the next question.

Mr. Aumi's question is as follows. Will the opening of new stores overseas and the number of D2C brands increase in the future? Shimoji will answer this question as well.

Shimoji: In terms of overseas store openings, we have the HUF and TACTICS in the US, while we have Margaret Howell in the UK. In China, we have Avirex and Arpege, and in the future, we are also considering other Asian countries, such as Korea and Taiwan.

We are also in the process of examining which brands would be in line with this, so in that sense, we are looking at opening stores overseas.

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In Europe and the US, we have brands in the UK and the US that have a solid foothold, so we will work hard to open new stores there.

HUF has also opened a store in San Francisco, which has been very effective in attracting customers and starting to generate significant sales. In addition, TACTICS is also planning to open new stores, so the acquired subsidiaries are considering new store openings in their respective locations as an initiative.

Shimoji: The D2C brand is also starting a new brand called Mecure this fall and winter. We will put this one on a solid growth phase. The Mecure and Etre Tokyo teams are also in the process of considering new D2C brands and changing existing brands to new D2C formats.

Moderator: Mr. Aumi, was this answer sufficient?

Aumi: Thank you very much. Incidentally, how much room do you think there is for HUF to open new stores in the US in the medium-to-long term?

Shimoji: As for the room for opening new stores, for a while, we had a large expansion as part of our store opening policy, but we have now narrowed it down. There are not that many in Los Angeles and San Francisco.

However, we would like to steadily open new stores in major cities, including cities on the East Coast, while taking into account the financial situation. Thus, we cannot say approximately how long it will take, but we believe that we will be able to open up to 10 stores in such a large country.

Aumi: I understand. Thank you.

Moderator: Thank you very much.

Now, let me move on to the next question.

The question is, an increase of JPY11 billion in SG&A expenses between the top and bottom line is planned, but what are the factors behind this other than the increase in sales?

The biggest one is the budget, which we have set as a strategic investment. The initial plan was to spend JPY2 billion per year, but we have spent about JPY500 million in the first half. As for the situation in the second half of the fiscal year, we will control costs while monitoring market conditions. There is also the annual investment in stores, which will basically be the same.

In the second half of the fiscal year, we will continue to work on cost control.

Mr. Watanabe, was this answer sufficient?

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

Moderator: Now that it is past 11:00 AM, if there are no questions, I would like to conclude the presentation of our financial results.

Thank you very much for your time today.

[END]

Document Notes

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