



TSI HOLDINGS

**TSI HOLDINGS CO., LTD.**

Financial Results Briefing for the Fiscal Year Ended February 2022

April 14, 2022

## 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>         | Financial Results Briefing for the Fiscal Year Ended February 2022              |                   |
| <b>[Fiscal Period]</b>      | FY2021 Annual   |                   |
| <b>[Date]</b>               | April 14, 2022  |                   |
| <b>[Number of Pages]</b>    | 10  |                   |
| <b>[Time]</b>               | 10:00 – 11:00<br>(Total: 60 minutes, Presentation: 34 minutes, Q&A: 26 minutes) |                   |
| <b>[Venue]</b>              | Webcast   |                   |
| <b>[Venue Size]</b>         |   |                   |
| <b>[Participants]</b>       | 77  |                   |
| <b>[Number of Speakers]</b> | 4   |                   |
|                             | Tsuyoshi Shimoji  | President and CEO |
|                             | Mitsuru Naito   | Operating Officer |
|                             | Hiroyuki Watanabe   | Operating Officer |
|                             | Takahiro Ishihara   | Operating Officer |

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## Question & Answer

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**Moderator [Q]:** Now, I would like to move on to the Q&A session.

Let me read the first question. There are two questions. First, in terms of the forecast for the current fiscal year, we expect moving expenses and higher purchase costs to be factors in the decline in profits.

Another question about the Mid-Term Business Plan. How does the Company position the current fiscal year in the Mid-Term Business Plan, and what are the specific measures to improve e-commerce sales growth?

I would like to ask Mr. Ishihara of Corporate Strategy to take this question.

**Ishihara [A]:** I am Ishihara from Corporate Strategy. Thank you for the question.

First, regarding the moving expense, we have appropriated JPY990 million as a one-time cost for the move, and potentially additional costs are already included in this assumption. We do not expect any additional costs to be incurred.

Of course, we are going to enter the construction phase, and if any major problems arise as we go it may be a different story but at this stage, our estimate already covers the maximum risk.

Regarding the procurement costs, we have already folded maximum risk including foreign exchange rate risks that we can think of at this stage. However, as for market trends, country risk has increased significantly, and we would be happy to report on any further significant expansion of this risk in our quarterly investor relations report.

**Moderator [Q]:** In addition, do you have additional comments on the positioning of the current financial results in the Mid-Term Business Plan?

**Ishihara [A]:** Regarding the positioning of the current term, as explained earlier by Mr. Shimoji, operating profit has been kept quite low because we have a project to move, which is part of our Mid-Term Business Plan and will enable us to reduce fixed costs in the future.

The impact of this is a one-off payment for the move, plus future fixed cost improvements, accounting for JPY1.4 billion. There are some areas where we appear to be under-represented there, but without that, in terms of the next three years, we are in an important situation as a preparatory stage. We believe that the business itself can be expected to grow.

Our Digital Business personnel will explain the e-commerce sales ratio.

**Watanabe [A]:** Hello, this is Watanabe, in charge of Digital Business.

In this Mid-Term Business Plan, we have strategies centered on the customer base [inaudible], strategies for contents, and strategies for [inaudible]. That said, the operational strategy is the greatest emphasis in this fiscal.

What will change from now on will be everything, brand and business operations will all be e-commerce-centric. We are poised to complete the operational reforms during this coming fiscal year. This means that our businesses will shift to e-commerce centric channel strategy. We are entering the first e-commerce year,

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**Moderator [Q]:** Ms. Yoshida, did that answer your question?

**Yoshida [M]:** Yes, thank you.

**Moderator [Q]:** Thank you very much. Now, let's move on to the next question. A question from Mr. Nagamatsu: In the current situation, what is the impact of the lockdown in China, and how is it affecting the procurement of goods and the customer relations at the storefront?

**Company Representative [A]:** For this one, I would like to share this first. The lockdown began in mid-March, and Shanghai is still lingering, as reported in the press.

Looking at the development of our SCM, the production unit, we see that about 70% of the products in China are delayed by several weeks, or from one to two weeks. For the remainder, there are some irregularities, such as a delay of several months, but we are taking appropriate measures such as assigning those items to other production areas as appropriate, but for the time being, our main operation is to cover a delay of one to two weeks at the store.

Is there anything you would like to add, Mr. Shimoji?

**Shimoji [A]:** Some of those products are not available due to the lockdown in Shanghai however we are taking measures where we can to switch from ship to air or change up the port.

Accordingly, we are not experiencing huge confusion; however, since the cargo volume tends to get intense before the Golden Week holidays, we are trying to find some measures of decentralizing the shipping volume.

I imagine the entire industry will be greatly affected, but at the same time, we are aware that we can handle some of the issues individually and in detail.

**Moderator [Q]:** Mr. Nagamatsu, did it answer your question?

**Nagamatsu [M]:** For now, yes. I'm good.

**Company Representative [A]:** In any case, the lockdown is still in effect, and we are taking action as we obtain information from time to time.

**Moderator [Q]:** Now, let us move on to the next question. This is a question for Mr. Oogaki.

One is the reason for the drop in e-commerce sales in the previous year. Another is the exchange rate and Japanese yen weakness.

I would like to turn to Mr. Watanabe of Digital Business for the first question.

**Watanabe [A]:** This is Watanabe. The year before last, we [inaudible] how to increase e-commerce sales, and the year before last we [inaudible] how to increase e-commerce operating profit and profit while controlling discounts, raw materials, and these kinds of things, and we [inaudible] our goals and operations. So [inaudible], the reflection is [inaudible] as far as where we can increase sales while also taking profits.

For the current fiscal year, based on the profit-taking operations that we have actually implemented in the previous fiscal year, how to increase sales and how to take profits [inaudible].

**Moderator [M]:** The second question will be answered by Mr. Shimoji.

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**Shimoji [A]:** We are mindful that there is a risk that the Japanese yen depreciation will continue to worsen. Therefore, we are changing the procurement of raw materials and production sites. We have been preparing to use our own factories and to return to the domestic market for some time, so we are responding in this way.

At this point, we are taking various measures to review our logistics procurement structure. Since this is an issue for the entire apparel industry, or rather the industry as a whole, we would like to take this as an opportunity or a chance to make reforms in various areas.

**Moderator [Q]:** Mr. Oogaki, did that answer your question?

**Oogaki [Q]:** Thank you. The first part of the e-commerce answer was hard to catch due to the communication quality, so I'd like to confirm it one more time. I think I heard that discount sales have been curtailed. And the focus was on profit. Does this mean that, in a nutshell, discounts portray higher costs to sell, or could it be that, the sales volume may appear to have decreased but in reality, the profitability increased?

Can you elaborate on this?

**Moderator [A]:** You're right.

**Oogaki [Q]:** You are commenting on profitability, correct? Profit margins are rising.

**Moderator [A]:** Yes.

**Oogaki [M]:** Thank you very much.

**Moderator [Q]:** I will now move on to the next question, which is about the Mid-Term Business Plan. Two questions, one is the outlook for cash flow. The second question is about the dividend payout ratio and the concept of share buybacks.

Mr. Naito, General Manager of the Corporate Division, will answer this question.

**Naito [A]:** This is Naito, and I would like to take this question.

As shown in the cash flow statement shared in the previous fiscal year's financial results, operating cash flow was positive at about JPY1.1 billion in the previous fiscal year. This is lower than what we normally expect. However, the previous year's figure was slightly lower due to tax issues on real estate sold in the previous two fiscal years. At a normal time, we expect annual operating cash flow to be positive at around JPY5 billion.

We believe that the JPY5 billion operating cash flow will be sufficient to cover the investments needed to continue the current business, such as investments in renewals and stores.

On the other hand, recently we have reached JPY9 billion in loans repayment per year, and we have not taken out any new loans, so our financial cash flow has been negative for a long time. Under these circumstances, as stated in the Mid-Term Business Plan, we will replace the current assets, convert assets that can be converted into cash, including investment securities, into cash, and utilize borrowings as appropriate. The goal is to generate about JPY30 billion in funds.

Although on the surface we describe this as real estate, we are considering investing JPY30 billion, including business investments, in new businesses that will generate earnings and in new materials.

Regarding the last point, shareholder returns, there are currently no major changes to our announced dividend policy. Pay stable dividends to shareholders. We have not changed our policy to continue to actively

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return profits to our shareholders by flexibly implementing treasury stock issuance while keeping a close eye on the situation.

The year before last, when the pandemic incurred a large operating loss, we did not pay a dividend for the first time since the integration, but we have now resumed payment of a dividend of JPY5, and our forecast dividend for the fiscal year ending February 2023 is JPY7.

That concludes my comment.

**Moderator [Q]:** Mr. Mitsuhashi, did that answer your question?

**Mitsuhashi [Q]:** I would like to ask for a supplement, if I may?

According to your answer, you will continue with recurring investments in the range of normal operating cash flow. If you allocate JPY5 billion per year, that brings the total investment to JPY20 billion within five years. If you plan on a JPY30 billion investment, you still have a JPY10 billion difference to use.

Could you share your vision on investing an additional JPY10 billion? Could that be new retail stores, or a new business platform, or are you anticipating spending JPY2.5 per a year on something else? Or are you looking at M&A budgets or something like that, if there is a good deal to pick up? Am I correct to assume that you are planning to use additional cash?

**Naito [A]:** Perhaps my explanation was not clear enough, but as I mentioned earlier, the annual operating cash flow of about JPY5 billion is to be used for investment in the renewal of existing businesses, and about JPY30 billion of new cash, including borrowings, is to be generated separately. This approach is to raise funds and use them to invest in new businesses.

**Mitsuhashi [M]:** Thank you very much.

**Company Representative [A]:** By the way, regarding store investments, we have included amortization in the traditional SG&A expenses. For your reference.

**Moderator [Q]:** I will now move on to the next question.

Mr. Mukai's question is whether or not to raise prices in response to rising costs and then a weaker [inaudible]? Although there may be some differences by brand, I would like to ask the President to provide an overview.

**Shimoji [A]:** We believe that it is unavoidable to pass on some price surges to product prices. That said, we will do our best to optimize the material cost structure. Through the consolidation, we will be benefited to lower the procurement costs overall, including, components, fabrics, accessories, and the like.

The most important thing we are aiming for is to provide our customers with attractive brand value and services that go beyond price, by making good products and providing good services to our customers. We are in the process of developing this. The most important framework of the Mid-Term Business Plan is to develop attractive commercial products.

It means new creativity that imaginatively outperforms the price. We will do our utmost to create good products that include the younger generation.

**Moderator [Q]:** Mr. Mukai, did that answer your question?

**Mukai [M]:** I understand. Thank you very much.

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**Moderator [Q]:** Thank you very much. If anyone has any questions to post, there is still some time left. Thank you very much. This is a question from Mr. Kanzaki.

The question is about a scheme for the e-commerce business to increase sales by approximately JPY10 billion in the next fiscal term.

I would like to hand it over to Mr. Watanabe.

**Watanabe [M]:** Is the question about the reason why we need to raise JPY10 billion from an e-commerce platform when we look at the whole business size?

**Kanzaki [M]:** Yes.

**Watanabe [A]:** One of the reasons why we have to expand e-commerce is the difference in profit margin between selling in retail stores and on digital platforms. Some products are better sold through physical stores. As I explained earlier, how to increase the profit margin of e-commerce [inaudible] and [inaudible] about it.

We understand that extending JPY10 billion for this purpose is a necessary goal from a holistic viewpoint, and we have set it there.

**Kanzaki [Q]:** I didn't quite understand how you were able to achieve the JPY10 billion goal just by changing to an e-commerce-centric operation as you mentioned earlier. Can you also tell us what you expect exactly to be growing?

**Watanabe [A]:** If you are asking if we are going to operate e-commerce-centric first, you are correct. How to attract customers and make sales on the e-commerce site, including stores and sales staff. [indistinct voice] On top of that, the membership, as I explained earlier, and the customer strategy for each area, the base is where we grow our membership.

How do we do it to extend it? Contents. The contents have changed from previous launches to engage customers with entertainment content, which is the key strategy in this area.

**Kanzaki [M]:** I understand. Thank you very much.

**Moderator [Q]:** Now, let's move on to the next question. This is an extension of the previous question. What happens if the physical store is out of stock of merchandise?

**Company Representative [A]:** I would like to answer that, in most cases, it only takes up to several weeks for the stores to adequately replenished, so, rather than taking on a large scale project, we would treat the shorting by crafty working with our retail stores.

The same goes for MD planning and VMD presentation. If there is a product that is not available when needed then, think about what an alternative display can be like, or if the deficit affects trade show mainstream, what can be done to cover the shorts without causing issues? It boils down to identifying the issue and working around it case by case.

Is this an acceptable answer?

**Shimoji [A]:** To add something, for example, when a retail space is empty, as some of the existing stores have started, they can create an outlet corner of outdated products in stock.

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Also, for items that come in large quantities and are loaded in containers, for example, the items are being individually reassigned by air and flown in smaller chunks, which helps to replenish stores. As far as I am aware, our stores overall look replenished.

**Moderator [M]:** Thank you. We have also heard that some sales periods have been extended, or, conversely, that if some products are not available, customers can still go online and reserve it to pick up products later at stores. I have heard some cases like that.

Mr. [inaudible], did that answer your question? Thank you very much. I will now move on to the next question.

Do you see prospects for improved earnings in the women's apparel business in the last fiscal year? I am asking for any examples of improvements to specific brands.

**Company Representative [A]:** It is often said that the market for ladies' wear is difficult, but the Arpege business in our company did quite well for the entire year.

NATURAL BEAUTY BASIC, for example, which had been saying that earnings were extremely difficult, went through the structural reforms that I have been talking about since last year, and from this March, products have actually started to come in as a result of a new rebranding. Last year, we had been making significant improvements in operations and sales methods, but this fiscal year, we have been able to make new proposals, including for merchandise, and as of this March, the results have been even more positive.

Please provide any additional information on your part, Mr. Shimoji.

**Shimoji [A]:** I know that we have launched various events. This is why we are changing our sales methods, such as the OMO mentioned earlier, so that we can unify our sales with those of our customers in stores and on the EC, which is doubling the number of sales.

The D2C brand is also doing well, and the new brand we are working on at ETRE TOKYO is also producing very effective results.

**Moderator [Q]:** Mr. Hayashi, did that answer your question?

**Hayashi [M]:** Thank you.

**Moderator [M]:** Thank you very much. We are nearing the event closing time. Does anybody have other questions? We may have a few minutes to cover just one more question. Looks like everyone is good, correct?

This concludes the presentation of financial results and the mid-term management plan.

Thank you very much for your attention today.

**Shimoji [M]:** Thank you very much. Thank you for the questions.

[END]

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### **Document Notes**

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
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3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
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