



TSI HOLDINGS

TSI HOLDING CO., LTD.

Q3 Financial Results Briefing for the Fiscal Year Ending February 2023

January 16, 2023

Event Summary

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[Participants]		
[Number of Speakers]	7	
	Tsuyoshi Shimoji	Representative Director and President
	Mitsuru Naito	Director, Corporate General Manager
	Jun Imaizumi	Senior Executive Officer, General Manager of TIP Promotion Department and General Manager of TSI TIP Promotion Division and General Manager of Innovation Section of TSI Co., Ltd.
	Hiroyuki Watanabe	Operating Officer, General Manager of Digital Strategy Division
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Question & Answer

Hasegawa [M]: Thank you very much. We will now begin the Q&A session. Please note that the capital alliance, which was mentioned toward the end of the presentation, FOOD REBORN has released its statement at 10 AM today. Please check back when you have some time. This video, and the financial results presentation materials, can also be viewed on our website.

Mr. Obayashi, please start with your question.

Obayashi [Q]: My name is Obayashi with Nikkei Newspaper. Thank you very much for having me today.

I am personally interested in FOOD REBORN, which you discussed in the latter section, and the cotton production in India, as they are doing a lot of energetic work toward sustainability. I think it will be a little while before we see concrete results, but at present, for example, you already have a sense of direction in terms of cotton cultivation.

I wonder about the cost implications when you are ready to incorporate cotton production into your business. Inevitably, an effort like this can be costly, compared to using what's already available. When you think about the process of creating yarns out of cotton balls, you know you would pay far lot more than usual.

What are your thoughts on cost implications or the size of the business, or perhaps your determination to execute this project at all costs?

Hasegawa [M]: Thank you very much. Since Mr. Yamada, Director of the SDGs Promotion Office, is also here, I would ask Mr. Yamada for an answer. If there is anything to be added, Mr. Shimoji can assist. Thank you.

Yamada [A]: Thank you for your question. As for the project with FOOD REBORN, and the Indian cotton project, I think there is still a period of time before we can actually put them to practical use if we think in terms of developing new materials.

Obviously, we are conscious that our customers want affordable prices, but on the other hand, we must also work to solve climate issues like global temperature rise that cannot be lessened simply by continuing to use conventional materials. Apparel makers usually do not engage in raw material production, and we have never dealt with that, but now we are working toward that point, saying that we must take on a different challenge. At the moment we don't have a concrete assessment of cost implications.

Obayashi [M]: Thank you very much.

Shimoji [A]: I would like to add a few things. This is Shimoji. First, a major part of our efforts with SynCom Agritech is soil improvement. It is widely known that a high volume of pesticides is used in the cotton farming industry to increase productivity. The key to organic cotton production this time is how to increase the efficiency of cotton cultivation and yield without contaminating the soil. In that sense, a critical point is to increase productivity without polluting the soil, without cellulosic chemicals, and without putting a burden on the environment.

We are reporting this as we are gradually beginning to see positive answers to the question. Therefore, we are taking action based on the idea that if we can increase productivity, the cotton harvest will increase, which will basically improve the cost of harvest. That's all from me.

Obayashi [M]: Thank you very much.

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Hasegawa [M]: Thank you very much. Now, we have two questions from Mr. Nozawa of Daiwa Securities.

Nozawa [Q]: One question is what kind of structural reforms will be implemented in the next fiscal year and beyond after the headquarter relocation was completed in September?

The other question is the reasons for the slightly weaker December monthly results and how to fight the winter sales season in January and February.

Hasegawa [M]: I would like to turn to Mr. Shimoji for the answer.

Shimoji [A]: Thank you for your question. First of all, in the larger scheme of things, we have been able to unify communication within our organization, which used to be disjointed. We have established a new and larger business segmentation, which we call domains. I would like to note that the new structure helped us accelerate information exchange and sharing.

I noticed more and more people share their successful business cases. If I can only expand the impact, a direction for the entire company can be disclosed. In the past what had been thought of as individual or brand-specific solutions can now be shared throughout the Company to help solve bigger issues. People learn from successful teams and improve everything.

I would like to put more work into offering highly productive work styles. It will allow us to horizontally link the infrastructure of individual brands, which will considerably change the way people work and move. In addition, we would like to transmit our qualities as a fashion entertainment company by gathering highly competent members in our integrated company.

In terms of numbers, December was not so strong, but since the beginning of the year, and the first sale of the new year, it has been very active. We will focus on this area, including the customers' moods, and deliver and digest the winter goods we have stocked well without big discounts this month and next. Therefore, we are planning to create a method that allows customers to see the new lineup and the spring and summer collection in stores at an early date after February. That's all from me.

Hasegawa [M]: How about you, Mr. Nozawa?

Nozawa [Q]: Thank you very much. First, I understand that physical reforms, such as the consolidation of bases, are almost complete by the end of this fiscal year, and that from the next fiscal year onward, we will make use of the consolidated resources to achieve future growth, is that correct?

Shimoji [A]: That is correct.

Nozawa [M]: I understand. Thank you.

Hasegawa [M]: Thank you very much. Now, we have a question from Mr. Otsuka of Asahi Shimbun.

Otsuka [Q]: I know it varies from brand to brand, but what is the percentage of inbound sales? Given the inflation, do you have anything in mind to compensate your employee to keep up with inflation or wage increases after April?

Hasegawa [M]: Mr. Shimoji, can you take this question?

Shimoji [A]: The weight of inbound sales for all brands is single digits at the moment. You can see it in the department store channel sales in October and November. Inbound sales from some of our brands exceeded 30% of total sales in some of the best-performing stores. That is not enough to lift the baseline of the overall

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sales. These good results are sporadic. That said, as you know, the department stores are doing well, as the inbound customers come back to our mainstay department stores.

I am unsure if this covers all of your questions, but I can say that despite some variations, the main stray business is trending quite positively.

We would like to raise employee wages to keep pace with inflation, and as management, we would like to respond to this while keeping a firm grasp of the social situation as well. Since this is a necessary discussion, we would like to further refine the content, although it is currently undecided as a major change. That's all from me.

Hasegawa [M]: Thank you very much. Mr. Otsuka, what do you think?

Otsuka [Q]: Thank you very much. In regard to the inbound sales ratio, if you could answer, what brands, in particular, are popular among inbound customers?

Hasegawa [A]: I will answer this one. We have not given an exact inbound ratio for the overall inbound sales, but up to now, inbound sales have been rather dominated by some of the street casual brands. The most recent department stores that have seen a considerable increase in the inbound ratio are ADORE, PEARLY GATES, and human woman, which represent department stores.

Otsuka [Q]: Thank you very much. Does this mean that before COVID-19, the inbound ratio was higher for these street casual fashion lines?

Hasegawa [A]: Yes.

Otsuka [Q]: What was that as a percentage, if you could tell us?

Hasegawa [A]: We do not give exact ratios.

Otsuka [M]: I understand. It's okay. Thank you.

Hasegawa [M]: If you have any other questions, please start with the Q&A. Are there any other questions? If you do so, please contact me, and we are happy to reply to your individual IR request.

This concludes the presentation of financial results for Q3 of the fiscal year ending February 28, 2023. Thank you very much for your attendance today.

[END]

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