# Medium-term management plan

TSI Innovation Program 2025

April 14, 2022

TSI HOLDINGS GROUP

## TSI Holdings Group's medium-term management plan "TIP25"

Unveiling of the TSI Innovation Program 2024 (TIP24) in the fiscal year ending February 2021 had to be kept under wraps for one year due to the Corona pandemic.

# Hence, to leap toward 2025, we have updated TIP24, to turn it into the TSI Innovation Program 2025 (TIP25).

#### **TIP25** formulation policy

## 1

Capture changes in the social environment and market to express and embody our existence and purpose

# 2

Align the direction of the entire company with the direction of business domains to develop business in new growth domains



Achieve sufficiency in digital engagement, ESGs and high profit, all areas that the stock market holds dear

# Agenda



- 1 Direction of change
- 2 Our purpose
- 3 Business plan
- 4 Business investment
- 5 Sustainability
- 6 Recreating corporate culture
- 7 Investment plan

The apparel industry's long-held convention of pandering to the unreasonable massproduction of unsolicited amounts of clothing that burden the environment and drive prices down in the process of vying with competing brands has collapsed and departed.

We will leave behind the time-honored apparel business equations and concepts, taking a new step as a company that proposes true value for people and the environment, reemerging as a company where everyone can dream.

**Re-emergence** 

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#### Environment, Society

A major premise is that companies strive for coexistence and co-prosperity with the global environment

Sustainability is a social responsibility and creates shared value with society.



#### Lifestylizing all services

Lifestylizing to go beyond goods into a non-physical digital fashion world.

Consumer Goods are tools for communication and selfexpression

> Select products and services based on prodigality and satisfaction derived from services that goods are able to realize.

Shedding the "apparel only" image

#### Regeneration

## A company creating fashion entertainment

- We link value to society (value provided) to corporate growth,
- While using <u>entertainment</u> that fashion brings,
- To create a form of <u>original</u> value provided that is not limited to product provision.





#### #Entertainment

#Empathy

#### Empathy

**Empathy & emotional involvement** 



- Empathy for purpose
- Empathy for contents
- Empathy for products
- Empathy for services

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Purpose

# Nurture worldwide empathy and social value through the power of fashion entertainment.



We aim to be the happiest fashion company in the world for all stakeholders (society, environment, customers, shareholders & employees).

Our wil

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# **3** Business plan

Strive to revitalize investment in growth markets, expand business areas and improve profitability. Plan for FY February 2025: Sales of **¥189.6 billion**, Operating profit of **¥8 billion**, Profit ratio of **4.3%** 

(Uni	t: Million yen)	Plan for FY Ending Feb. 2023	Plan for FY Ending Feb. 2024	Plan for FY Ending Feb. 2025	Plan for FY Ending Feb. 2026
	Sales	<b>157,340</b>	<b>172,375</b>	<b>189,618</b>	<b>203,005</b>
	(YoY)	(112.1%)	(109.6%)	(110.0%)	(107.1%)
	EC sales	<b>52,853</b>	60,255	<b>75,847</b>	84,791
	(EC ratio)	(33.6%)	(35.0%)	(40.0%)	(41.8%)
	SG&A expenses	<b>86,550</b>	92,841	99,678	104,041
	(SG&A ratio)	(55.0%)	(53.9%)	(52.6%)	(51.3%)
	<b>Operating profit</b>	<b>1,500</b>	4,747	<b>8,063</b>	11,543
	(Operating profit ratio)	(1.0%)	(2.8%)	(4.3%)	(5.7%)

	KPIs for FY2/2025	
EBITDA <b>9</b> % or higher	ROE <b>5.3</b> % or higher	EC ratio 40% or higher

# **Creating forms of fashion entertainment**



190 bil	Sales
76 bi	EC sales
8 bill	Operating profit
	Operating profit ratio

190 billion yen 76 billion yen 8 billion yen 4.3%

#### **Clearly define our growth areas and intensify investments**

Set up business domain and aggressively invest in growth areas. In particular, expand sales over next three years in wellness and street businesses. Invest in digital generation with an eye on the future to develop next-generation customer value.

#### Acquire customers by pursuing entertainment

Create fashion entertainment that is not limited to apparel. Create a media base by integrating press room when offices are combined and consolidated.

Circulate various customer-orientated contents directly to customers.

#### **Reform corporate structure to significantly expand E-commerce business**

Reorganize all operations to prioritize e-commerce and digital technology. Consider large-scale investment in CRM structure and in-house service development, aiming to expand sales in conjunction with large-scale sales promotion.



**Fulfilling purpose** 

**Sustainability** 5

6

**Corporate culture** 

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# **Dramatic expansion of EC**

The entire company will shift to a system of strategies and operations that prioritizes e-commerce and digital technology. We will invest in the evolution of an organizational structure that enables development of products, services and communications that exceed market expectations.



#### E-Com Business expansion

### Dramatically raise sales to 76 billion yen with an EC ratio of 40%

Design a "growth mechanism" that encourages customers to use services continuously.

We urgently need to improve profitability of brand business by reviewing the resource structure of shop business and EC business. Viewed from productivity and profitability, we need to shift to strategies and operations that prioritize EC and digital technology.



- Winning EC operations: Tackle issues company wide. From the planning stage, we will design products, carry inventories and promote sales with EC at the fore.
- Shifting sales channels to EC: For low-profit shops, we will shift customers to EC and make withdrawal decisions in consideration of EC sales growth. And, when we do withdraw, we will be sure to conduct EC-orientated customer campaigns.
- Expansion of entertainment contents: We will develop entertainment contents that make a fresh departure from the past and innovate communication methods, enhancing both the quality and quantity of contents that are in step with the times.

#### E-Com Business expansion

## 15 million membership platform

From competition over individual brands to competition for each business area Rocketing up the number of customers in each domain centered on content enhancement

We will shift to a membership strategy that embodies a scheme for each business domain. We will provide experience value with five themes, clothing, food, housing, work and (of course) products. We will distribute info through various facilities and media outlets, developing communities between staff and consumers.



 CRM integrated analysis infrastructure (mechanism): We will build an infrastructure for integrated management of customer info for the entire group, analyze that info throughout the entire group in order to develop methods of approach.



 Optimal CRM (devices) for each business domain: We will strengthen customer acquisition investment in each highly compatible domain in order to incorporate customer strategies for each market as a means of optimizing approach to and contents for customers.



 Unearthing synergy in business domains:
 We will mutually refer customers to brands in our business domains in order to introduce them to services and business models other than our product sales, thus broadening peripheral business, including alliances.

### Digital Assets

## **Enhancing entertainment contents**

Strengthen the development of new communication methods as a fashion entertainment company.

We will combine highly engaging contents with deep user knowledge to provide platform partners with means of reaching high value.

And we will create new economic zones where donations/tips can be made and NFTs purchased based on the enthusiasm of fan communities.



 Digital entertainment: We will shift from contents that depict the charm of clothing to the creation of entertainment contents. We will develop new approaches, including those that offer IP contents and digital media.



 Value-focused sales promotion strategy: Instead of focusing on cost, we will compete to increase value as much as possible and acquire users.



# **Reviving the appeal of real shops**

We will rebuild shops and improve profitability, so that shops become places where customers can experience the world views of brands that embody luxury value and as places to improve customer loyalty.



#### Real-Store Strategy

# Making the most of lessons learned from Corona pandemic Reform profit structure and work on developing attractive shops

We have ended the unprofitable shop closing phase in the previous structural reform project (domestic shop closure plan 95% complete\*). Once again, we will turn to an offensive phase centered on brands that are extremely popular with customers. By opening large stores or reopening shops in prime locations, we will demonstrate how post-corona stores should be, reforming their profit structures and launching them as alluring spots to be.





### Real-Store Strategy

## Improving experience value in large stores

## Offer "only here experience" to encourage repeat visits

We will turn stores into places that offer luxurious value embodying the world views of brands. With the increase in store size, we will improve the ability to attract customers and increase their time in the store. And, as a result, we aim to improve brand loyalty and the average amount spent by individual customers.



- Improving brand loyalty by customer staying time:
  Acquire new customers by making stores more attractive
  - Enhance product categories and number of products
  - Provide new store experiences via events and simulation equipment
  - Enhance showrooms as OMO



 Improving profitability by reducing cost per tsubo (3.3m<sup>2</sup>)& CapEx: Sales per tsubo decrease as store footprint increases, but the cost reduction effect is even greater, especially in rent. So, by increasing size, we will improve the profit margin while reducing the number of employees per tsubo.



#### Brand Portfolio

# Low-profit businesses will be reviewed and withdrawn as required, and investment capacity increased to maintain approaches into growth domains.

Our approach to gender and generation is not superficial and will continue to change constantly. We will nurture development personnel who understand and are aware of the "axis" of values, and we will add new brands to our portfolio.



- (1) Withdrawal from shrinking domains/low-profit businesses: We will review & determine whether to withdraw from businesses based on growth potential, compatibility with fashion entertainment, profitability, significance of existence, business scale/EC ratio and customer loyalty indicators.
- (2) Approach to growth areas: To constantly develop growth domains, we will continue to capture markets and replace portfolios by various means, including M&A.



# **Creating value in new experiences**

Being creations that are not limited to products, we will offer fashion entertainment (fun) experiences as a value.



Public relations Strategy

## Bring entertainment flair to the PR team to provide goods, services and meaning

We will reform our press room functions, which were mainly BtoB, develop content by ourselves and reshape the press room into an passionate one that approaches customers directly as our own media.

The press room at the new head office will be an innovative work studio that creates entertainment, experience and empathy.



We will become a team with a mission to provide goods, services and meaning with extra service value – in other words, we will break away from the traditional creation of apparel products (goods) and energize communication.

#### Fashion Entertainment LAB

## **Designing customer experiences beyond imagination**

#### Contribute to making life more enjoyable, healthy, safe, productive and meaningful

We are in an era where the "quality" of experience gained through products and services determines the success or failure of businesses. The staff at our "TSI Fashion Entertainment LAB" understand the trends influencing customers and create customer experiences that capture the relationship between "society and customers".



 Designing experiences: We will design experiences that unravel the intrinsic values of brands and their significance in society, and combine them with consumer viewpoints.



Designing & constructing services: We will connect products and services to a series of digital and physical experiences.



 Designing communication: We will develop communication based on brand value and purpose, and deliver the experience to the world.

#### Business Synergies with Other Industries

## Developing non-apparel business and creating synergy between businesses

We will become a fashion entertainment company that designs essential lifestyle experiences that exceed immaterial values, starting with society and customers.

Centered on our present assets, we will create synergy between peripheral and different industries, using alliances and M&A investment to create a new economic zone.



MAGUS ARTnews JAPAN (Sources)



AgriTech business: We will start this from FY Ending Feb. 2023



Cultivation of organic cotton: We will take initiatives to cultivate cotton using harmless chemicals as an alternative to harmful agrochemicals in order to set our organic cotton apart from other brands.



 Creation of carbon credits: We will store carbon in farmland using technology provided by Syncom. And we will get carbon credits from agricultural produce sales. We are also looking to sell carbon credits.



# Investing in growth business areas

We will clearly define growth areas and invest in them so that markets, values and needs become more fluid and diversified.



Wellness	& lifestyle	Street & c	ulture
Athleisure Outdoor Lifestyle	Create fashion entertainment that has a positive impact on the health and happiness of consumers and, by extension, society.	Street Culture Select	Nurture street culture and create fashine entertainment that brings positivity to society and the environment.
Fashion Fashion c		<i>Digit</i> Digital ge	al Native Generation

1

# Wellness & lifestyle

Athleisure

Outdoor

Lifestyle

Create fashion entertainment that has a positive impact on the health and happiness of consumers and, by extension, society.



Wellness & Lifestyle

# **Create compelling communities**

Transfer from apparel brands to community brands.

Develop entertainment businesses that are close to lifestyles.



## Flourishing communities where "bonds unite everyone to build brands together"

Brands and customer communities will create enthusiasm.

We will expand our economic zone by offering new brands to communities.

#### Community shape



 Golf community: Golfers enjoy weekends with their friends. They connect with each other at practice facilities, sharing their interests in fashion. So we will provide contents, services and events that embody the experience of golf entertainment.



 Broadening out to highly compatible areas around communities: We have launched "NBB WEEKEND" as D2C brands that are hybrid mixes of sport and fashion, and we will push them as assets to customers looking for golf brands.

#### Unearthing consumers from communities

#### Community Business

## Fun & entertainment are "taking off as hands-on experiences"

### Designing hands-on experiences with society and customers as the starting point

New ways of learning are becoming the trend, centered on a wide range of hands-on experiences that integrate elements of "fun" and "entertainment". We will stick close to the lifestyles of customers and offer new values beyond clothing from various TSI brands.



 Developing outdoor gear brand: We have launched a camping collection from our outdoor brand "and wander".



 Opening cafes outside of commercial complexes: Through Urth Caffe, we are offering relaxing spaces that enrich lifestyles.

2

Street & Culture

# **Street & culture**



Street & Culture

# Fun platforms rooted in the spirit of street life

By extending out to the "fun" aspects of life, we will unearth connections to peripheral lifestyles, reinvent the gear used and build new experiences.



2

# Establishing a project for global sales of 40 billion yen in street life, skateboarding and snowboarding businesses

By extending our image out to the keywords "genuine", "fun" and "culture", we will expand our business globally, unearthing business in peripheral lifestyles, reinventing gear, building new experiences and doing so much more. Cored around our "HUF" and "TACTICS" brands, we will launch flagship stores in fashion-shaping cities across the globe to sound a fanfare for street and skateboard culture around the world.




### Global Business

2

## Project to launch "TACTICS" in Japan Establishing the latest US skateboard culture in Japan

By offering the "only here experience" that does not end with the purchase of goods, we will shape a skateboard community, giving the community reasons to buy "TACTICS" at stores and via e-commerce.

## **TACTICS JAPAN**

Skateboarders enjoy the expanding community and the fun they can have expressing their individuality.







### Develop new select shops for the next generation

Nowadays, select shops are becoming more alike, and their value has diminished. Therefore, we will seek the right chemistry for success in new select shops to bring consumers unprecedented value.

Customers will feel the value of "experiences that open up an unexpected world of greater expressiveness" and will then pay to be part of that world.

Customers will feel the value and pay for "inclusive experiences that look exclusive".



Fun layouts for garments that are all liberated and inspirational





Discover new creators and offer them spaces to support their challenge in the market



Laidback spaces where anyone – young families, couples and friends– can relax and have fun

We will consider unprecedented combinations of businesses as part of our brand reorganization and integration.

2

3

Fashion Capital

Lady's Fashion Refine the experience values of brands and create fashion entertainment centered on highly refined tastes.

 

 TIP25 final year targets

 Sales
 Operating profit
 EBITDA margin

 20.02
 billion yen
 1.51
 billion yen

 (CAGR from FY Ending Feb. 2022 : 13.7%)
 (Operating profit ratio: 7.5%)
 12.7%

 Fashion Capital

# Services that constantly respond to trends and changes

With the flexibility to keep changing effortlessly, we will help customers be who they want to be

and couple together the links of their happiness.



### Online Merges with Offline

### An OMO mechanism bringing us closer to customers

There is an urgent need to create a new sales formats in this new normal era. Our stores and sales staff will work to build sales formats that will lead to customer engagement in different ways than before.

何かお困りですか?       次の選択肢から1つお選びください。       ADODEAの会場(104544)	www.adore2005.com	<b>に いっ</b> <b>に 舗のスタッフに相談をする</b> <b>店舗のスタッフに相談してください。</b> チャ ットや写真で店舗から直接ご質問にお応え いたします。 Virtual shopping by Klarna. プライバシーポリシー・利用期的		
		次の選択肢から1つお選びください。		

 Enhancing contents & services: We will fully enhance contents and services to provide the same value experienced when visiting a store anytime, anywhere. We will establish an evaluation system and training system to promote online activities of sales staff.



 Making use of digital technology to connect brands and customers:
 We will establish better personal relationships by directly tying into customers via social media platforms. And we will reflect customer feedback in product development.

3

### Online Merges with Offline

### New store configurations & new customer referral configuration

To bolster customer services using OMO, we will redefine the roles and functions of actual stores and transform them into ECintegrated entities. As ever, only in real stores can customers experience the world view of brands with all five senses, so our strategy will make the most of those in-store strengths.



Opening stores in new areas & complexes: The existence of actual stores is still vital to enable consumers to directly touch the worlds of brands
 in other words, for those who "want to receive customer service" and "actually try on garments". Thus, we will continue to actively open stores as places to special experiences not found online.

Select store & date/time			✓ 接客スタッフを指名する		
1. Select store		0	<b>chinatsu</b> LE PHIL ニュウマン新宿	153cm	
Hokkaido	~	۲	mikasa LE PHIL		
Tohoku	~		ニュウマン新宿	162cm	
Kanto	~	0	naomi LE PHIL ニュウマン新宿	170cm	

 Nominating customer service staff: We will make advance staff reservation possible, enabling customers to get customer service without having to wait when they come to stores, and sales staff will be able to prepare in advance to improve the quality of service.

4

### **Digital generation**

**Gen-Z Fashion** 

D2C/F2C

**Digital Fashion** 

Create fashion entertainment for the digital native generation via digital x fashion.

## TIP25 final year targets

Sales

20.29 billion yen (CAGR from FY Ending Feb. 2022 : 10.2%)

### **Operating profit**

**137** billion yen (Operating profit ratio: 6.7%) **EBITDA** margin

**11.9%** (EBITDA : 2.42 billion yen)

Digital Native Generation

# Contents that captures the ever-expanding next generation

We will create empathy and enthusiasm with contents that spreads unlimitedly from the tangible to the intangible.



#### Digital Native Generation

In this era of pulse consumption, where the time from recognition to purchase has been tapered to a minimum, we will pursue new creative forms via content innovation that realizes vertical entry and exit points.





 Pulse consumption: The customer experience has evolved with the evolution of digital technology and social media platforms, hence the time for consumption behavior has been drastically reduced from product recognition to purchase.

See: Think with Google

4

#### D2C Conglomerate

### **D2C conglomerate**

# We are setting up various contents to grow into a business with sales of 3.5 billion yen

We will create mechanisms and contrivances that generate numerous & diverse businesses, brands and contents based on directors and contents. By FY Ending Feb. 2025, we plan to be a conglomerate business with sales of 3.5 billion yen across a total of six brands: "ETRE TOKYO", "MECRE", EC Cosmetics, F2C brand, new brand A and new brand B.





4

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### *F2C*

### Launching a digital business with a completely new sensibility

We will make strategical use of our factories to take on the challenge of new sales generated by brand x factory x

digital as an F2C model.

#### New customer-factory relationship:

- We will create mechanisms to precisely design the experiences before & after purchases, so that no-one misses the excitement of the emotion.
- We will sell high-margin, limited edition products and goods born from collaboration with rare value and topicality.



Consumer



\*Collaborating with TSI Sewing Yonezawa & Miyazaki Factories



# Develop customer empathy, form team spirit that generates enthusiasm and prepare workstyles & environments

#### [Social background]

Gen Z consumers are becoming more focused on style than taste. Instead of sticking to fixed tastes, they have begun to find their own styles that suit who & where they are and what they are doing.

### From taste to style We will have creators of the same generation create new business for Gen Z, the generation that loves transforming.



#### [In-house scene]

We are holding hybrid planning sessions with a mix of 3D samples, avatars, real samples and fittings. Female staff of the same age as customers thoroughly thrash out the issues to arrive at designs that they would want and that can be commercialized.

A new workstyle incorporating digital technology handled by staff with the same sensibilities and feelings as the client generation to design new creations driven by planning power.





(4)

(4)

#### Generation Z Project

#### As the 1st step, we are promoting a project to redefine the "JILLSTUART" and "JILL by JILLSTUART" brands.

We will grasp in real time the values and insights of as many consumers as possible and plan to work as a team to release products and experiences in cycles.



 Reaching young people: In TSI's portfolio of brands, we need brands that reach customers in the period where they are becoming acquainted with fashion.

#### An era in pursuit of self-realization

Set against a backdrop of diversifying values and social media fatigue, Gen Z women's desire for approval dependent on the axis of others is shifting to the desire for self-realization based on their own axis.

#### "Changes in femininity

Due to women's social advancement and changes in gender awareness, the stereotypes associated with femininity have disappeared. So now Gen Z women are entering an era in which they can seek femininity for themselves, rather than femininity that is imposed on them.



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# **5** Sustainability

### Sustainability

We have identified nine materialities for three key areas. And the entire company will tackle those materiality issues.

(See: Sustainability Story Book [separate document])

#### Environment

### Environment

We will visualize the global environmental load and then challenge to build a sustainable business model.

Climate change
Raw materials
Waste
Water resources

### People

### People

We will strive to offer physical and mental happiness to all whom work with us.

#### Diversity

Health & safety
Employee wellbeing
Fair labor conditions



### Social

### Society

We aim to do business that makes everyone "happy", including our customers and local communities and ourselves, while also taking care of local culture.

#### □Local community

Our Commitment

TSI Holdings Group Carbon neutral vision 2050



Coexistence with the global environment and local communities is the bare minimum requirement for a company to exist. Via our business, we will work company-wide to solve the problems facing the world and take on the challenge of becoming carbon neutral.

### **Fashion entertainment** × **solving social issues**

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#### Workstyle Innovation

### Shifting into a spiral and agile way of working

Establishing a cross-functional agile co-creation team to transform our workstyle into a creative one.

Taking the opportunity afforded by office relocation, we will redesign our physical work environment on the premise of synergy to realize a creative workstyle.

### Organization & Culture

Each department is vertically divided and one-way, with thought only given to one's own area of work

Shift to thinking about the best brand experience by being a crossfunctional agile team



 Environmental design that creates business synergy: Design a free address layout to constantly enable inter-organizational collaboration and business synergy in a naturally induced manner.



Spiral & agile workstyle: Create a cross-functional agile team that works in speedy cycles.

#### Human resources strategy

### Becoming a company of multi-skilled workers who can withstand this era of change

We will invest in human resources training and development. We will establish a system to hone the skills needed to make us a multi-skilled workforce capable of responding to the quantum leaps of this era.



Job rotation: Start a job rotation system (including both head office and stores) that transcends the old organization comprising a personnel system geared to companies as units.



- **Opportunities to participate in LAB:** Via projects, we will provide a wide range of opportunities to learn the agile service design approach, a new creative method.

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# 7 Investment plan

# Aggressive investment is required to expand markets because the higher the growth rate of a business the more intense the changes and competition in the industry.

We will realize entertainment experiences to provide customers with new experiences. Investing in new businesses is a key factor to the success of TIP25. We will manage funding with high investment efficiency to search out a future in which we will excel both in business terms and financial terms.

# We are considering investing up to 30 billion yen, comprising 15 billion yen of cash on hand and 15 billion yen of debt financing

Asset is	<ol> <li>Improving asset efficiency         <ul> <li>Centrally manage funds by introducing group CMS</li> <li>→ Reduce consolidated cash and deposits to 25 billion yen level</li> <li>Reduce fixed assets (policy investment stocks, etc.)</li> </ul> </li> </ol>	<pre><securing funds="" of="" surplus=""> <math>\cdot \cdot \cdot + 10</math> billion yen <math>\cdot \cdot \cdot + 3 \sim 5</math> billion yen</securing></pre>			
issues	<ul> <li>Inventory compression (turnover period ▲0.15 months)</li> </ul>	$\cdot \cdot \cdot + 1 \sim 2$ billion yen			
related to inv	<ul> <li>2. Improving investment efficiency         <ul> <li>Invest in real estate effectively leveraged via bank loans</li> <li>→ Raise 50% of investment by borrowing</li> <li>= Double profit</li> </ul> </li> <li>Flexible replacement of investment targets (1/2 of investment period)</li> </ul>				
investment	<ul> <li>Optimizing capital policy</li> <li>Optimal usage of treasury stock · · · M&amp;A/Alliance/Purchase</li> <li>Review of dividend policy · · · Emphasis on stable dividends</li> </ul>				

Nurture worldwide empathy and social value through the power of fashion entertainment.

# A company creating fashion entertainment

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### TSI HOLDINGS GROUP

Descriptions about future within this document are based on the information that the company obtains on the date of this repo certain assumptions deemed to be reasonable. Actual earnings may differ materially from various future factors.