



TSI HOLDINGS

TSI HOLDINGS CO., LTD.

Q3 Financial Results Briefing for the Fiscal Year Ending February 2024

January 15, 2024

Event Summary

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[Participants]		
[Number of Speakers]	3	
	Tsuyoshi Shimoji	President and CEO
	Mitsuru Naito	Operating Officer, Head of Corporate Headquarters
	Hihoyuki Watanabe	Executive Officer
	Shunsuke Hasegawa	Investor Relations & Corporate PR Assistant Manager

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Question & Answer

Hasegawa [M]: Now, I would like to start the question & answer session.

Amundi Japan **[Q]:** My question is about the profit reform project that includes experts outside from your company, about the timeline of its effects.

Hasegawa [M]: Mr. Shimoji, the president, answers your question.

Shimoji [A]: Thank you for your question. As for the external expert team, we started working with them in November last year. We examined the contents, identified issues, and deepened understanding of the issues by the end of February of this year. We are just beginning to get a clearer picture of what we are aiming for, and we will be announcing the results, including the effects of the project.

We have already started these actions as needed, and we expect to see effects gradually during the next fiscal year, however, it will be linked to the medium-term plan, so we expect to see major changes starting in the next fiscal year.

We will work on areas that need to be addressed immediately, including some SG&A expenses. We will strive to make improvements in a visible manner, including in the next H1. That is all. Thank you very much.

Tokai Tokyo Research Institute **[Q]:** I have three questions. First of all, operating income in the full-year plan is considerably lower. The first question is whether there is a possibility of leading to further discount as the inventory level has increased considerably.

Naito [A]: Regarding your question about further expansion of loss from discounting. It is not like selling at a large loss, but we give discounts so that we will not reach the expected gross margin level. Therefore, the gross profit margin forecasted in Q4 will be reduced by the amount of discounting.

On the other hand, we are gradually promoting the control of procurement based on the inventory situation. In such a situation, we are forced to sell off our inventory level to some extent, especially in the golf business, where sales have not grown as much as expected.

For example, PEARLY GATES has not had a sale for the past several years, but we are planning to control inventory while holding sales for these brands as well. In light of the impact of such sales on gross profit, we have made a downward revision to our forecast for Q4. That is all.

Tokai Tokyo Research Institute **[Q]:** My second question is about operating income. There is divergence by JPY3.3 billion from the original plan. In the original plan, you initially expected cost optimization of JPY600 million and business growth of JPY700 million. Could you explain the reasons for the downward revision?

Naito [A]: As I explained earlier, we fell short of the initial budget in H1, with operating income almost on par with the previous year. In Q3, we worked hard to recover the approximately JPY500 million in operating income that we missed in H1, as Q3 is the most critical time of the year. The biggest reason for the miscalculation was that the golf business and the street fashion business in the US in particular, continued to face very difficult conditions beyond H1.

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I mentioned earlier, the women's business, which is considered as a fashion capital, is growing steadily. In other businesses, for example, street brands such as STUSSY and AVIREX are expanding steadily. However, the golf business, which had been a driver during the pandemic, has slowed down this time.

Although it has slowed down, compared in the pre-pandemic period, PEARLY GATES is still at about 125%, so it is not a major decline in the medium-term trend. However, compared to the trend up to last year, it has dropped significantly, and sales have dropped by about 20%. The biggest reason for the downward revision is in this area, together with the earnings impact and the slump in HUF, on the American street fashion, is dragging significantly on the overall performance.

Tokai Tokyo Research Institute **[Q]**: The spring/summer 2024 procurement plan and this, the overall purchase plan. How do you envision the market environment for golf and street brands?

Shimoji [A]: Thank you for your question. First of all, as for the purchase plan for spring/summer 2024, we have many standard items in the sports and other categories from this fiscal year, and we will continue to sell these items. You can assume that there is some narrowing down in variations.

In addition, we ran out of hit items in the ladies' business. In that sense, we will carefully review the balance of procurements, but basically, we would like to think about purchasing in a balanced manner to not to cause an overstock again.

As for the market environment for golf and street brands, golf apparel has seen a rapid growth in the last year. In the aftermath, there was a slight halt in the current fiscal year, and we believe that there has been some convergence. Therefore, we do not see the golf market itself as being in some kind of bad situation. In that sense, we believe that it enters a period of stability.

In the US, street brands that are more towards action sports brands, have been gaining momentum in the US due to the Olympic year. In that sense, we expect that there is a return to more than economic conditions, as a market environment. Voices from the US side are the same, and in this sense, there is a slight return, especially in skateboarding.

Daiwa Securities **[Q]**: Regarding e-commerce, you mentioned that you are reviewing the sales strategy and digital marketing. What was different in H1 from the forecast, and what specific measures are being taken to rebuild in the future?

Watanabe [A]: Thank you for your question. Speaking about the point that differs in H1 from the forecast, the major deviation is due to business withdrawals and agency terminations, which account for more than 40% of the shortfall.

Regarding coverage of that part, one point is that we partially expected a recovery in the golf business. Another point is the ladies' business, etc. This time, we were looking to make a big leap forward in this business, which was expected to recover after the pandemic. In reality, there was too much upsell up to last year, and the expansion of support commensurate with the recovery was a little slow. In the EC, there has been a shortage of some of our best-selling items is where we differ from what we saw.

As for concrete measures for future restoration, I believe that the key point is how to control production and sales with one of the supply chains to prevent shortages. We are working on establishing a control mechanism for IT or systems.

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Also, in the trend of coming back to physical stores, I believe that the physical stores are also in the process of being restructured, and the direction is to make them larger or efficiency. We are already working on the creation of a new OMO service, or a new EC service, in line with this. We are in the situation of a service with a new mechanism for attracting customers in this area during the next fiscal year.

Daiwa Securities **[Q]**: Golf brands and HUF in the US are struggling due to a reaction to the previous year. When do you expect them to come full circle?

Shimoji [A]: As for the golf brand, we do not see a sudden recovery in the flow of the market, but we do see it stabilizing. Therefore, we believe that we will be able to make some solid sales, even if they will not be effective as the last year. That is my image of the brand and golf.

We are looking at the US street fashion industry and HUF, including the US market will improve from the May, in the next fiscal year.

With the Paris Olympics coming up this year, as well as the Los Angeles Olympics in future, we believe that the needs for skateboarding and action sports will increase once again. We will make sure to prepare advertising accordingly.

Daiwa Securities **[M]**: Thank you very much. That's all from me.

WWD [Q]: Now that the golf business has run its course, what do you see as the main brands responsible for future sales growth?

Shimoji [A]: Thank you for your question. First of all, "LE PHIL", a women's brand, and "hueLe Museum", a smaller brand that mixes art and apparel at physical stores, have made greater strides than expected in this quarter.

I think it is interesting and new to customers that apparel items are displayed in an unusual art setting, and it linked to manufacturing. We have been appealing it as a purpose. And, we are now in our fourth year, and entering the fifth year, and it has been growing effectively.

This is the reason why the new women's brands are growing very fast.

We would like to support these brands firmly to grow and make the next step in development.

In the men's category, the long-established leather brand "Schott", as well as "AVIREX", are still doing very well in the domestic "HUF" market. We would like to support these brands to grow.

As for overseas demand, "and wander" is growing at a very high rate. "and wander" was chosen as a starter for Hypebeast this time. In that sense, we have received very positive feedback in the form of design and new lifestyles. All of our domestic stores are growing at the 120% level, and many people from all over the world are coming to our stores for "and wander".

In this sense, I believe that this brand can appeal in the international market as a next step. That is all.

WWD [Q] : Which of your brands, such as "NANO universe" or "MARGARET HOWELL", that have relatively large sales, do you think still have good prospects or that will continue to grow?

Shimoji [A]: As for "MARGARET HOWELL", it dropped once during the pandemic. In the current fiscal year, the growth rate is about 100%, or even, but "MARGARET HOWELL", and another line brand "MHL" is growing

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very well. Although “MARGARET HOWELL” is a 50-year-old brand, it is a brand with many customers who share its lifestyle. So, we are planning to develop new stores in order to propose a new lifestyle. Therefore, I believe that we will be able to further into the next market.

And as for “NANO universe” that you mentioned, there hasn't been such a big jump up in terms of numbers. However, existing stores are basically returning to profitability, with mainstay street-side stores almost exceeding budget. Although there are still some issues that the portion, we dropped in EC's have not yet returned, please understand that we are in a very positive situation.

We are working on improving profitability, and as I mentioned earlier, we still have issues to address in the area of e-commerce, centered on ZOZO, including product development, and we will continue to work on this area, too.

Motohashi [M]: Thank you very much.

Hasegawa [M]: Thank you.

This concludes the presentation of financial results for Q3 of the fiscal year ending February 28, 2024. Thank you very much for your time today.

Shimoji [M]: Thank you very much.

[END]

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