TSI HOLDINGS CO., LTD.

Q1 Financial Results Briefing for the Fiscal Year Ending February 2025

July 16, 2024

Event Summary

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[Participants]	56
[Number of Speakers]	5

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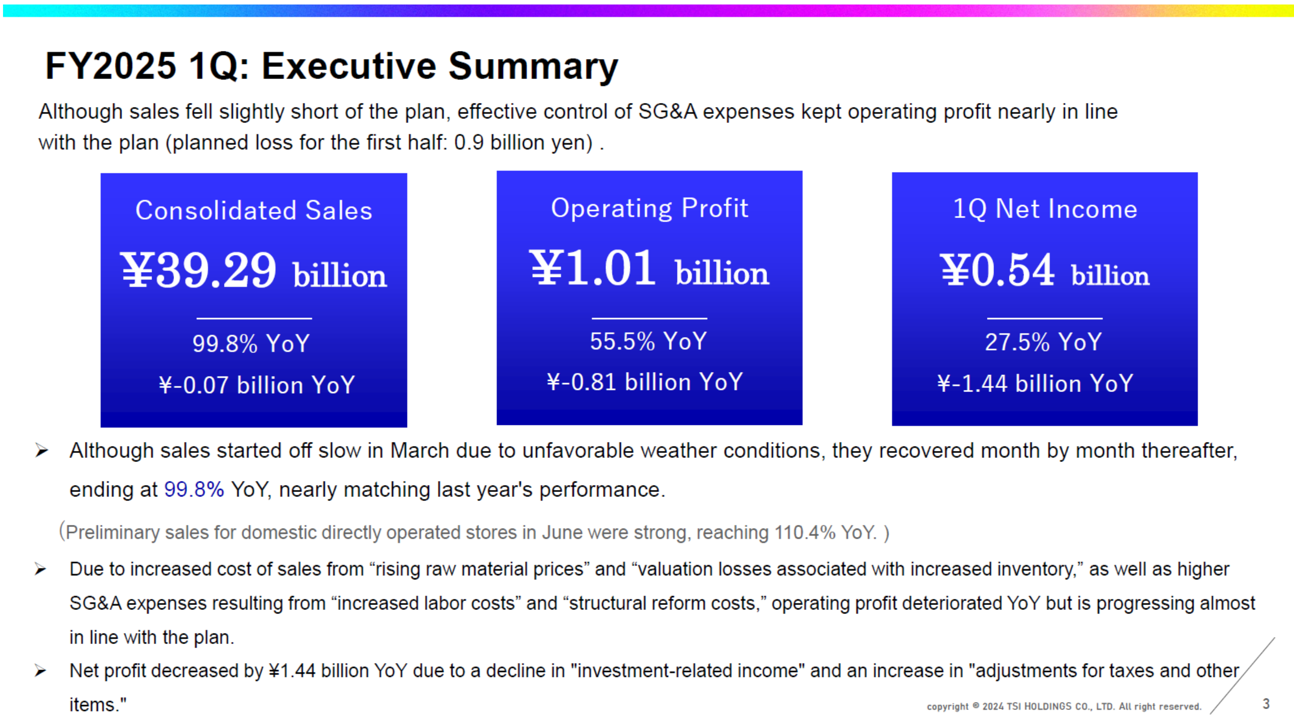
Presentation

Moderator: Good morning. It's time to start the briefing on the financial results of TSI HOLDINGS CO., LTD., for Q1 of the fiscal year ending February 28, 2025.

Shimoji: Good morning. Thank you very much for your continued support. We will start the financial results meeting for Q1 of the fiscal year ending February 28, 2025. I would appreciate your attention.

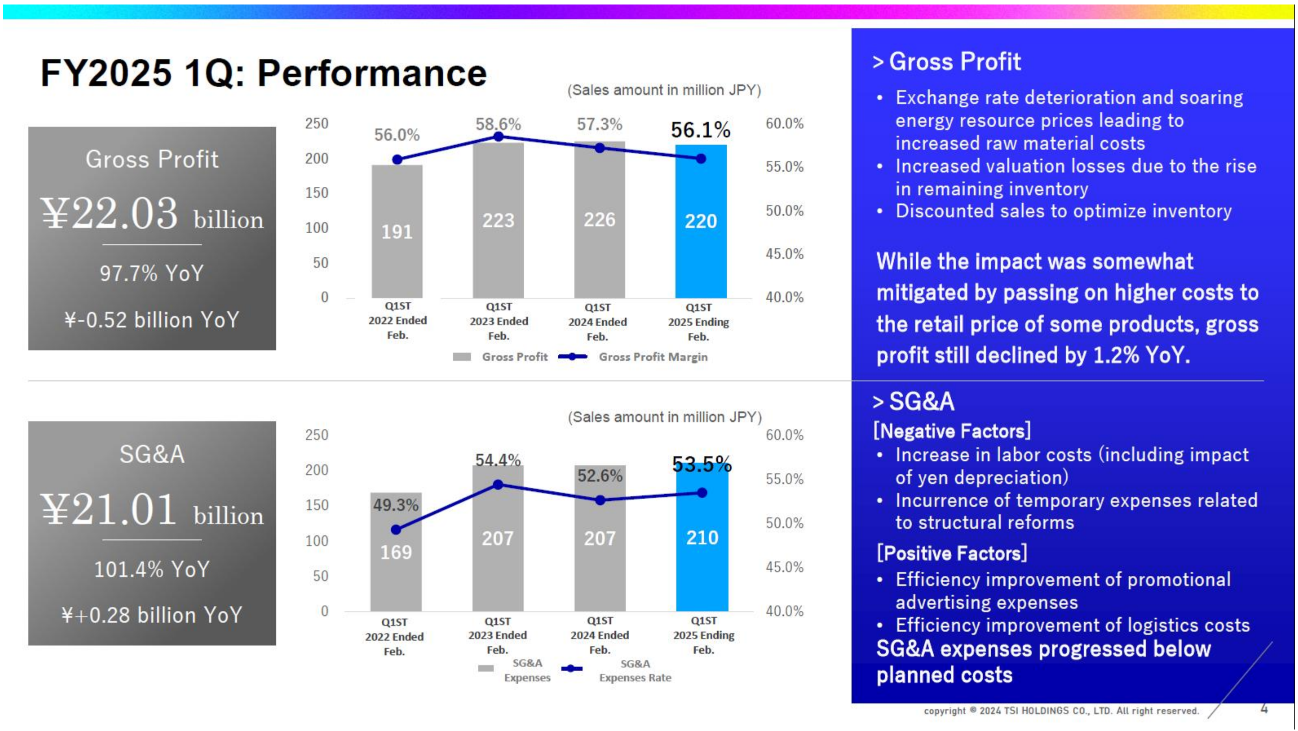


I will start with performance highlights. Sales fell slightly short of plan. Operating profit was almost in line with the plan due to the control of SG&A expenses.

Consolidated net sales were JPY39.29 billion. Despite a difficult start due to unseasonable weather in March, sales recovered steadily. The Company's sales were also 99.8% of the previous year's level, almost on par with the previous year's level.

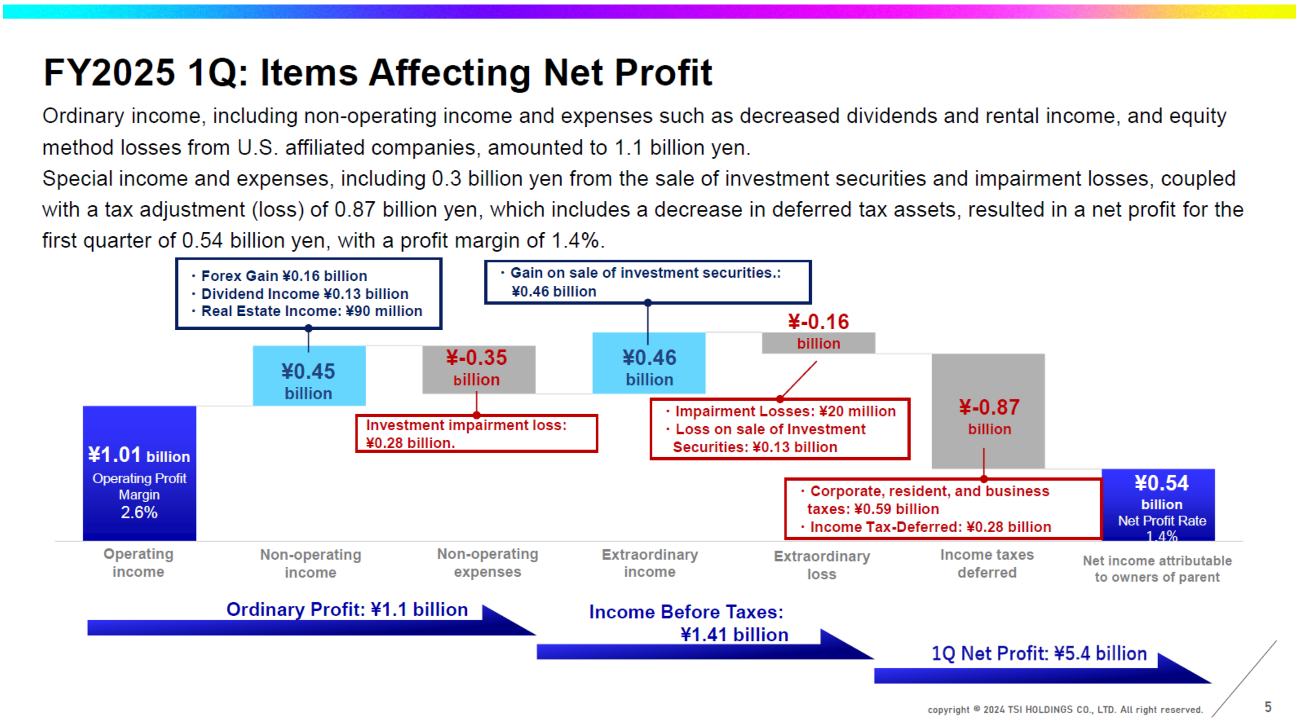
The operating profit, JPY1.01 billion, deteriorated from the previous year yet remained mostly in line with the plan. The first thing to point out is an increase in SG&A expenses, such as structural reform costs. However, the plan to complete the structural reforms is swiftly moving forward.

Net profit for the quarter is JPY540 million. Net profit was JPY1.44 billion lower than the previous year due to decreased investment-related profit and increased deferred income tax.



Consolidated financial results. Gross profit was JPY22.03 billion, and SG&A expenses were JPY21.01 billion. Gross profit was also down 1.2% from the previous year. Although we have mitigated some of the impact of the surge in raw material costs by partially passing these costs onto the selling price, the increase in valuation losses and discount sales aimed at inventory optimization have been major factors contributing to the deterioration of the gross profit margin.

The deterioration in SG&A expenses compared to the previous year can be attributed to increased labor costs influenced by the yen's depreciation and costs associated with structural reforms. However, the improvement relative to our plan is due to the gradual effects of structural reforms, including the suppression of promotional advertising expenses and the efficiency improvement of logistics.



Next, I would like to look at net profit and impacting factors. Net profit for Q1 was JPY540 million, with a profit margin of 1.4%. The breakdown is as follows: JPY1.1 billion in ordinary profit, including operating profit plus non-operating profit such as dividend profit, decrease in real estate profit, and equity in losses of affiliates in the US, and JPY0.3 billion in extraordinary profit, including gain or loss on sales of investment securities and impairment loss. Due to tax adjustments, including the reversal of deferred tax assets, corporate taxes amounted to JPY 870 million. As a result, net profit for the first quarter was JPY 540 million, with a profit margin of 1.4%.

Balance Sheet

(Sales amount in million JPY)

	Cumulative Q1ST 2024 Ended Feb.		FY Ended Feb. 2024		Cumulative Q1ST 2025 Ending Feb.					
	Results	Composition Rate (%)	Results	Composition Rate (%)	Results	Composition Rate (%)	Y/Y Change	Y/Y (%)	Q1/Q4 Change	Q1/Q4 (%)
Current Assets	72,096	53.0%	70,877	53.1%	68,588	52.0%	-3,508	95.1%	-2,289	96.8%
(of Cash and Deposits)	28,498	21.0%	27,472	20.6%	24,425	18.5%	-4,073	85.7%	-3,047	88.9%
(of which, Inventory)	27,269	20.0%	28,051	21.0%	28,859	21.9%	1,590	105.8%	808	102.9%
Non-current Assets	63,930	47.0%	62,586	46.9%	63,428	48.0%	-502	99.2%	842	101.3%
(of Investment Securities)	27,805	20.4%	25,137	18.8%	25,816	19.6%	-1,989	92.8%	679	102.7%
(of Investment Real estate)	4,701	3.5%	4,683	3.5%	4,886	3.7%	185	103.9%	203	104.3%
Total Assets	136,027	100.0%	133,464	100.0%	132,016	100.0%	-4,010	97.1%	-1,447	98.9%
Current Liabilities	27,665	20.3%	28,388	21.3%	27,529	20.9%	-136	99.5%	-859	97.0%
(of Short-term borrowings)	-	0.0%	5,013	3.8%	5,000	3.8%	5,000	-	-13	99.7%
(of Current portion of long-term borrowings)	4,553	3.3%	3,309	2.5%	2,759	2.1%	-1,794	60.6%	-550	83.4%
Non-current Liabilities	9,281	6.8%	7,653	5.7%	7,449	5.6%	-1,832	80.3%	-204	97.3%
(of Long-term borrowings)	4,175	3.1%	1,630	1.2%	1,345	1.0%	-2,830	32.2%	-285	82.5%
Total Liabilities	36,946	27.2%	36,041	27.0%	34,979	26.5%	-1,968	94.7%	-1,063	97.1%
Total Net Assets	99,080	72.8%	97,422	73.0%	97,037	73.5%	-2,043	97.9%	-385	99.6%
(of Treasury stock(-))	-3,774	-2.8%	-7,605	-5.7%	-4,052	-3.1%	-278	107.4%	3,553	53.3%
Total Liabilities and Net Assets	136,027	100.0%	133,464	100.0%	132,016	100.0%	-4,011	97.1%	-1,448	98.9%

> Cash and Deposits
【Year-on-year Comparison】
Due to increased inventory and stock buybacks, cash and deposits decreased by 4.07 billion yen.

> Inventory
【Year-on-year Comparison】
Current purchasing control is progressing smoothly; however, there has been an increase of 1.59 billion yen due to bulk purchases of long-term sales products and excess inventory from previous years. Efforts are underway to promptly achieve optimal inventory levels.

> Treasury Stock
【Comparison with Previous Term】
Continuing our acquisition of treasury stock as part of capital policy and shareholder returns, we canceled some of the acquired stock, reducing the treasury stock balance by 3.55 billion yen.

> Equity Ratio
Maintained a high equity ratio of 73.3%.

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This is the balance sheet. Cash and cash equivalents decreased by JPY4.07 billion due to increased inventories and the purchase of treasury stock.

Although procurement control for the current season is progressing well, inventories increased by JPY1.59 billion year over year due to one-time procurement of long-term sales products and overstocking of prior-year inventories. We are making every effort to optimize inventory early.

The Company has been continuously acquiring treasury stock as part of its capital and shareholder return policies. The balance of treasury stock decreased by JPY3.55 billion due to the cancellation of treasury stock acquired in April. The equity ratio remained high at 73.3%.

FY2025 1Q: Existing Channels

Benefiting from the recovery in consumer behavior with increased outings and rising international visitor demand, domestic physical store sales (department stores + non-department stores) showed a solid performance, reaching 103.4% YoY, an increase of 780 million yen.
In e-commerce, the impact of stabilizing demand in the market for high-demand products from the previous period, and in wholesale (domestic and others), the effects of the rebound from increased COVID-19-related demand, have both posed challenges.

(Sales amount in billion JPY)

		1Q of FY ended Feb 2023	1Q of FY ended Feb 2024	1Q of FY ending Feb 2025	YoY
Domestic Retail	Department Store (% of total sales)	5.44 (14.3%)	5.45 (13.8%)	**5.25 (13.4%)**	96.3%
	Non-Department Store (% of total sales) *1	16.75 (43.9%)	17.78 (45.2%)	**18.77 (47.8%)**	105.6%
	EC (% of total domestic retail sales)	9.1 (29.1%)	8.75 (27.4%)	**8.29 (25.7%)**	94.8%
Domestic Misc. (% of total sales) *2		4.0 (10.5%)	4.45 (11.3%)	**3.95 (10.1%)**	88.8%
International (%of total sales)		2.81 (7.4%)	2.91 (7.4%)	**3.0 (7.6%)**	103.2%

*1 Non-Department Store: Stores located in shopping centers, outlet malls etc.
*2 Domestic Misc. Wholesale sales, sales to the employees and other sales by TSI Group's apparel related business as well as non-apparel business.

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Next is the sales overview by channel. First, retail store sales in Japan increased steadily to JPY780 million, 103.4% of the previous year's level, thanks to a resurgence in outbound purchasing behavior and the benefits of increasing international visitors. On the other hand, in the e-commerce business, the market for high-demand merchandise subsided from its peak time during the previous fiscal year. The wholesale business struggled, too, due to a reactionary slump after the special demand during the pandemic.

FY2025 1Q: Existing Channels

For physical store sales, the impact of withdrawing from some department stores was offset by sales from non-department stores, which were 105.6% of the previous year, an increase of 0.98 billion yen.

Physical Stores

Sales: **103.4% YoY** (non-department stores: **105.6%** YoY)

Benefiting from increased demand from international visitors, urban stand-alone stores and shopping centers performed well. In particular, 'and wander,' 'STUSSY,' and 'AVIREX' showed strong growth. 'MARGARET HOWELL' and 'NANO universe' also demonstrated a general recovery trend, although there were regional differences.

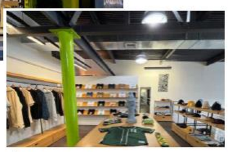
AVIREX × Schott

"AVIREX" and "Schott" opened their first combined store in the Nagoya Sakae area. The space showcases the unique characteristics of each brand, providing customers with an immersive experience of their respective worldviews.

International

Sales: **103.2%** YoY

Under the current exchange rate conditions, a portion of the sales increase can be attributed to accounting conversions to yen. When comparing figures in local currencies to the previous period, "MARGARET HOWELL" (UK and France) showed steady performance, while the two US-based subsidiaries continue to face challenges.


▲HUF section
in a Hawaiian store

HUF

Given the challenging market conditions in the mainland US, 'HUF' has expanded its outreach by opening new store in Taiwan and a section in a Hawaiian store, aiming to establish contact points with new customers.

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In the physical store business, the impact of store closures at some department stores was offset by sales at shopping centers and street stores.

In the physical store sales, the YoY growth rate was 103.4%, of which shopping centers and street stores accounted for 105.6%. Solid progress has been made by “and wander,” “STUSSY,” and “AVIREX.” “MARGARET HOWELL” and “NANO universe” also show a general recovery, depending on the area. AVIREX and Schott, pictured here, have opened their first combined store in Nagoya.

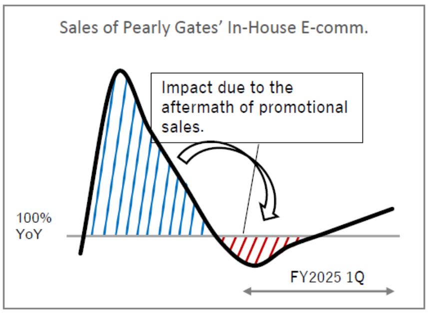
In the international business, sales were 103.2% year over year. The impact of foreign exchange rates, which elevated the yen equivalent for accounting purposes, influenced the results. MARGARET HOWELL performed well in local currencies compared to the previous year, but HUF and Tactics in the US continued to face challenging conditions.

FY2025 1Q: Existing Channels (E-commerce)

Due to the termination of the agency contract with "UNDEFEATED" from the previous year and a decline in the sneaker market, which affected the availability of high-profile streetwear products, there was a slowdown in EC sales. Additionally, the sales decrease was somewhat impacted by the winter sale conducted by "PEARLY GATES" after several years.

(Sales amount in billion JPY)

	FY2023 1Q	FY2024 1Q	FY2025 1Q	vs FY2023	Vs FY2024
Domestic In-House E-comm sales	4.51	3.99	3.46	76.9%	86.8%
(Percentage of total EC sales)	(49.5%)	(45.6%)	(41.8%)	(-7.8pt)	(-3.8pt)
Domestic E-comm sales	9.1	8.75	8.29	91.1%	94.8%
(Percentage of total domestic retail sales)*	(29.1%)	(27.4%)	(25.7%)	(-3.4pt)	(-1.7pt)
Int’l E-comm sales	0.97	0.91	0.96	99.1%	105.0%
(Percentage of total Int’l retail sales)	(34.6%)	(31.6%)	(32.1%)	(-2.5pt)	(0.6pt)
Total E-comm Sales	10.07	9.67	9.26	91.9%	95.7%
(Percentage of total retail sales)*	(29.5%)	(27.7%)	(26.2%)	(-3.3pt)	(-1.5pt)



Pearly Gates conducted promotional sales in the previous quarter to reduce inventory. As a result, sales declined in March due to the aftermath, but have been strong since April."

※ Total retail sales is not including domestic miscellaneous sales, such as wholesale sales and sales to the employees.

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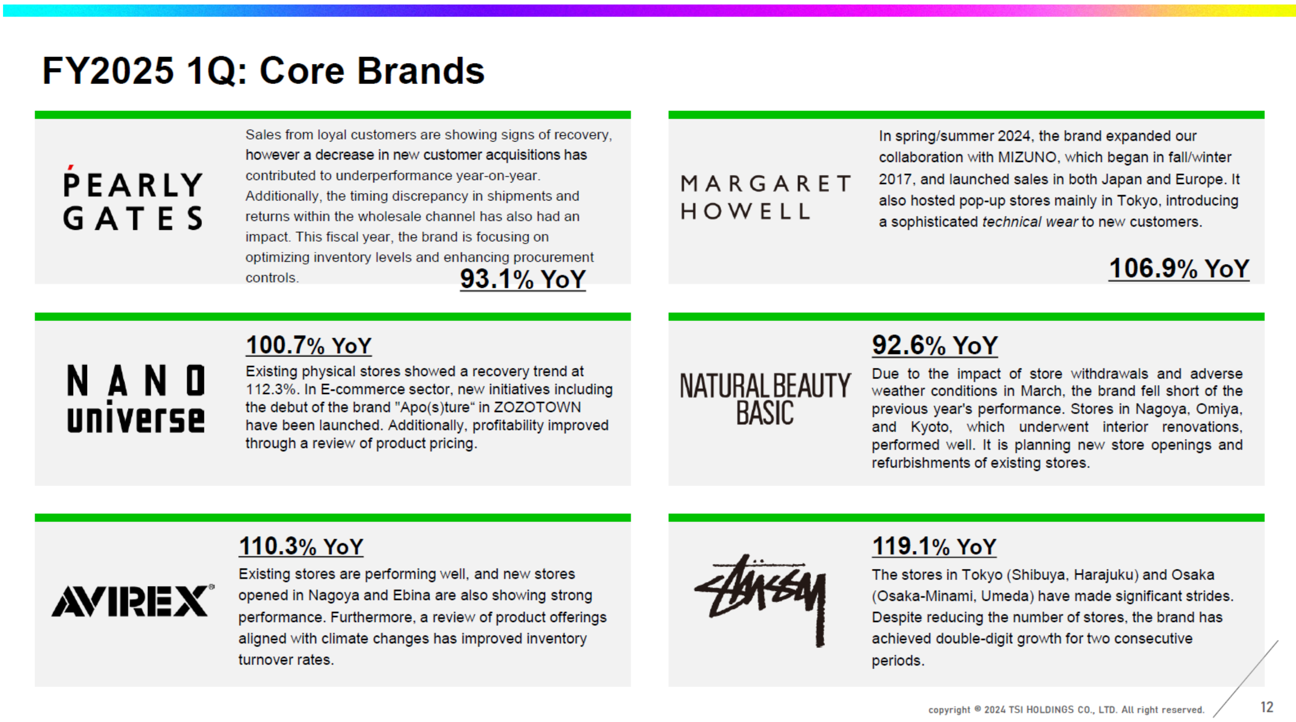
E-commerce sales results. The e-commerce sales were JPY9.26 billion, 95.7% year over year. Last year's termination of the agency contract with UNDEFEATED and the decline in the sneaker market led to a decrease in popular items from streetwear brands, contributing to the slowdown in e-commerce sales.

Additionally, PEARLY GATES held a winter sale from January to February for the first time in a while, which resulted in a drop in March sales. We plan to consolidate 13 sites into one by next year to address the slowdown in EC sales. We will make every effort to achieve this integration within a year. This move is expected to generate high anticipation, and we are preparing to activate it within the current fiscal year.



Here is an overview of brands. First is PEARLY GATES. Sales made to customers who are loyal to this brand are rebounding. However, the number of new customers is decreasing, which is why we could not obtain free-roaming customers in the previous fiscal year.

In addition, the wholesale channel experienced a 93.1% YoY decline due to shipping and returns expected by the end of the last term slid to this term. However, we will optimize the amount of inventory and control procurements in this fiscal year. We should expect to see how much effort we can devote to newly developed products. We are determined to accomplish both goals: inventory control and new products.

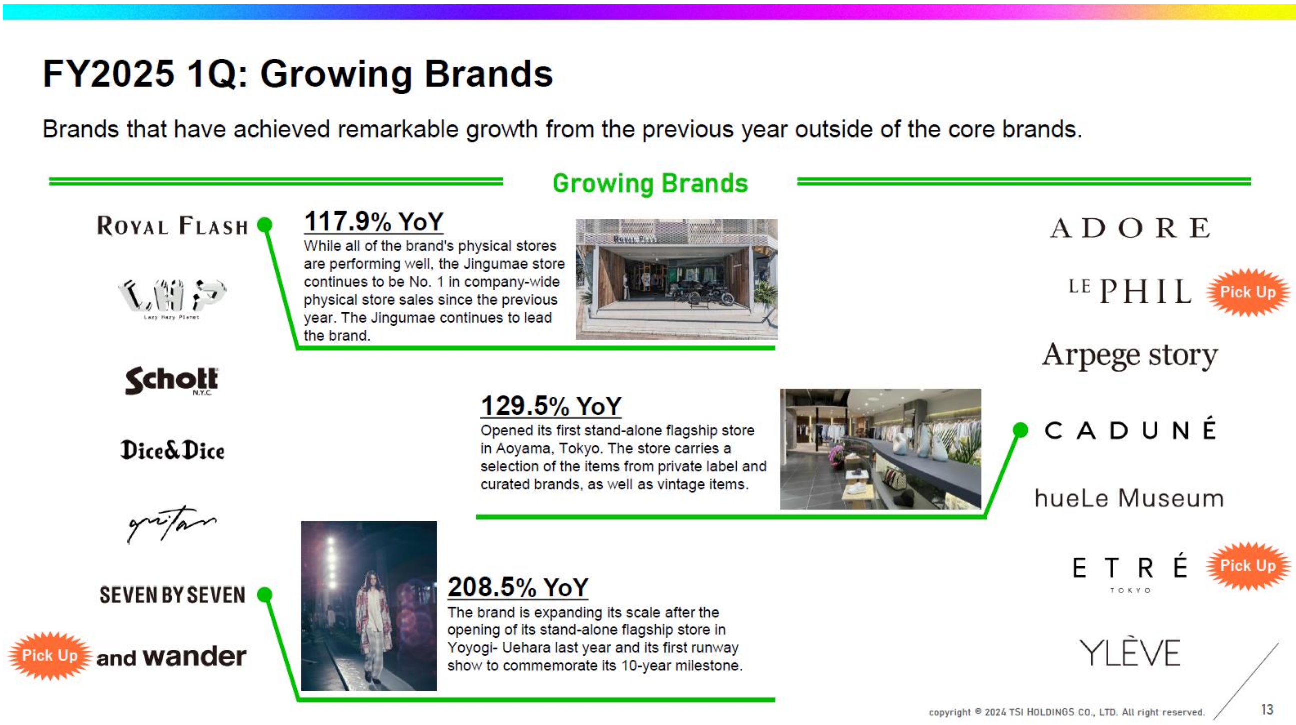
Secondly, MARGARET HOWELL achieved a 106.9% increase year over year. We have been collaborating with MIZUNO since the fall/winter of 2017 and expanding from the spring/summer of 2024. It is also sold not only in Japan but also in Europe. We also have a pop-up store, mainly in Tokyo, where new technical wear will be introduced each season. The product is also doing very well in Europe and is appreciated by our customers.

The third is the NANO universe, with a YoY increase of 100.7%. Existing physical stores are recovering at 112.3%. Regarding e-commerce, we have launched new initiatives, including the debut of Apo(s)ture, a new brand available on ZOZOTOWN. In addition, product prices have been reviewed to improve profitability. In this context, we are seeing a solid recovery.

The fourth is NATURAL BEAUTY BASIC. Due to the impact of store closures (8 stores were reduced compared to the same period last year) and unseasonable weather in March, sales are 92.6% year over year. Renovated stores in Nagoya, Omiya, and Kyoto, where store interiors were changed, are performing well. We will continue to take various measures, such as new store openings and renovations.

Fifth, AVIREX. It's 110.3% year over year. In addition to the strong performance of existing stores, the new stores opened in Nagoya and Ebina also performed well. In addition, inventory clearance has been greatly improved by reviewing the product mix to match the changing climate.

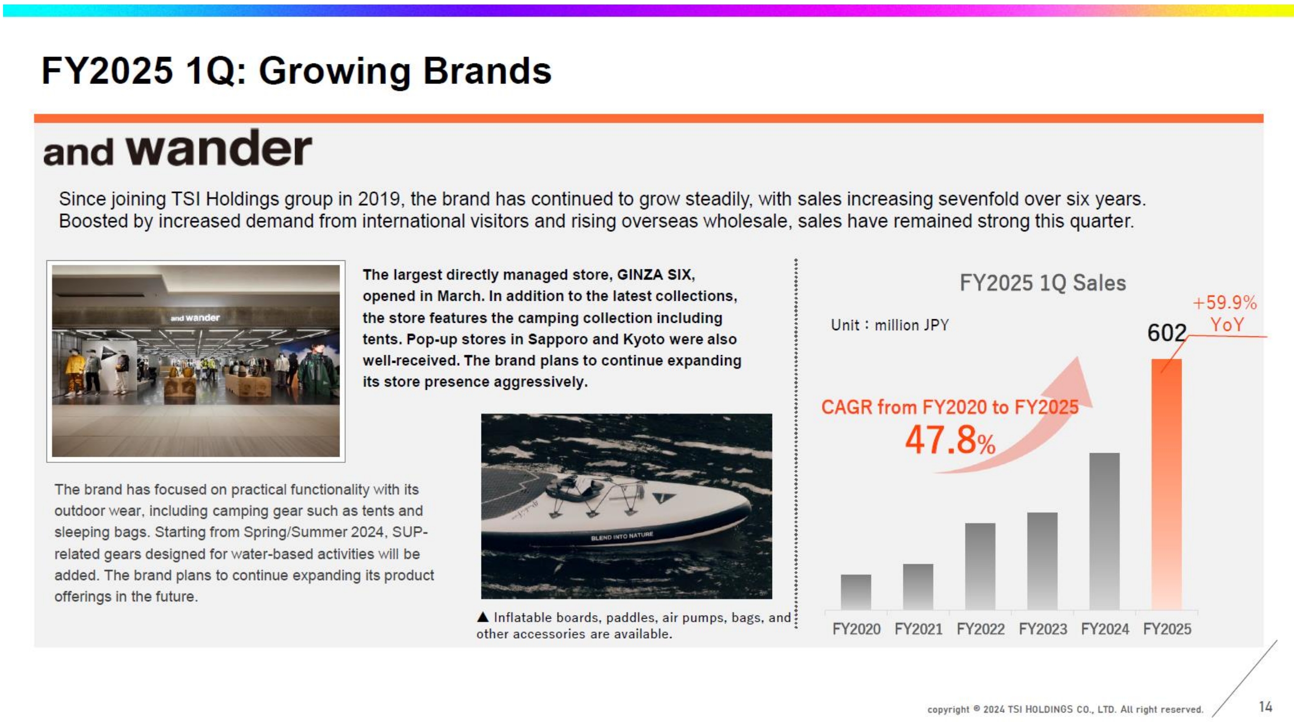
Sixth, STUSSY. Sales were 119.1% year over year, with significant growth of stores in Shibuya, Harajuku, Osaka-Minami, and Umeda. The demand is so great that customers stand in line in front of our stores, and although we have reduced the number of stores, we have achieved double-digit growth for two consecutive fiscal years.



Next, we will report on the status of our growing brands, for which we have high expectations. Many of the brands experienced double-digit or better growth from the previous year.

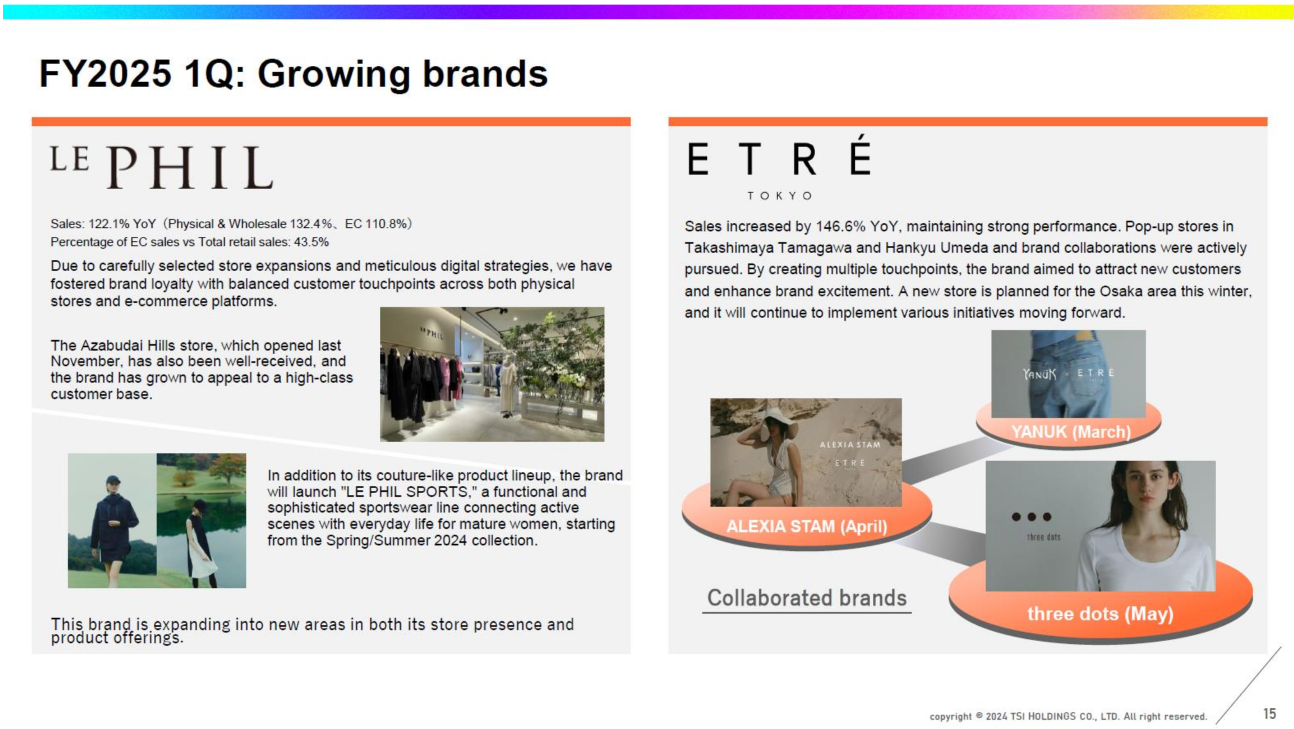
Namely, “ROYAL FLASH,” “LHP, Schott,” “Dice&Dice,” “quitan,” “SEVEN BY SEVEN,” and “and wander.” And for women, there are “ADORE,” “LE PHIL,” “Arpege,” “CADUNE,” “hueLe Museum,” “ETRÉ TOKYO,” and “YLEVE.”

We will reintroduce our pickup brands later, but first, ROYAL FLASH grew 117.9% YoY, CADUNE grew 129.5%, and SEVEN BY SEVEN grew more than 200% YoY. There are several small but fast-growing brands, and we have high expectations for them.



Since becoming part of TSI HOLDINGS in 2019, “and wander” has continued to grow steadily. Sales have grown sevenfold over the past six years, and the current fiscal year has been another strong one for the brand, thanks in part to the tailwind from sales to international visitors and an increase in overseas wholesaling.

The brand has been well received in Europe, and quite a few international customers from Asia visit our stores. The GINZA SIX store, which opened in March, has received quite positive customer reactions with its new display and presentation. In addition, we intend to invest in expanding the business overseas.



Continuing on, we have LE PHIL. LE PHIL opened in Azabudai Hills last November. This brand is trendy and very well received by our customers. Total sales reached 122.1% year-on-year, with wholesale sales at 132% and EC sales at 110%, reflecting balanced growth overall. We will focus on expanding sales by opening pop-up stores and launching new sportswear products to attract new customers.

Next is ETRÉ TOKYO. Sales grew strongly, with a 146.6% YoY increase. Many customers visited our pop-up shops at Tamagawa Takashimaya and Umeda Hankyu, leading to significant sales. We established multiple contact points to attract new customers and enhance brand power. We plan to open a new store in the Osaka area this winter and will continue to implement various measures to boost brand recognition.

Structural Reforms Status

Purpose	Course of Action	Expected Impact FY2027 (One-Year)	Status（Progressed as Planned）
Purchase Cost Reductions	**Consolidate orders/improve purchasing leverage** ▸ Cost reduction through revision of business schemes/contracts with suppliers/manufacturers	3.0 billion yen	Not only consolidating the ordering processes but also reevaluating production sites, local settlements, and reducing indirect expenses. Cost benefits are expected to materialize starting from the Spring/Summer 2025 productions.
Optimized Supply & Demand Management	**Strategic pricing/sales promotions** ▸ Optimization of retail pricing and cost ratio. ▸ Reassess promotional/discount sale programs	2.5 billion yen	Begun evaluating pricing strategies starting with brands that have shorter product cycles, aiming for gradual effectiveness starting from the Autumn/Winter 2024 collections. Additionally, we are exploring advanced and standardized methods for inventory and markdown management.
Retail Operation Reform	**Increase efficiency/productivity of staffing** ▸ Optimal allocation of store staff across brands and by area. Consolidate underperforming stores and development of large stores.	1.5 billion yen	Advancing preparations to facilitate shared sales personnel across brands. Additionally, we have begun optimizing staffing in our stores. Our aim is to clarify roles within sales positions to enable efficient operations, and we are also aligning this with a reorganization of career paths for sales roles.
EC Integration & System Renewal	**EC site integration of 30+ brands** ▸ Improve operational efficiency by integrating EC functions/websites that exist under each brand. ▸ Streamline the backend operations	5.0 billion yen	We are currently in discussions with existing sites to integrate the EC sites into Mix Tokyo and achieve its rebranding. This effort encompasses developing strategies for digital channel expansion, functional design, and integrating member services.
Improve efficiency of costs including SG&A	**Ensure ROI-driven expenditures** ▸ Review of brand positioning and cost/staffing structure based on ROI of measures	2.5 billion yen	We are enhancing cost management across all SG&A expenses and successfully reducing them as planned. To further compress and streamline costs, we are implementing new systems for logistics, materials, and other areas.
		10.0 billion yen	

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I will continue to report on the progress of structural reforms in our medium-term management plan. A comprehensive structural reform covering all aspects of operations is currently underway.

The five topics of reform are shown here. They include reducing purchase costs, optimizing supply and demand management, reforming stores, integrating/renewing e-commerce, and streamlining SG&A costs. Progress is nearly on track according to the plan.

The first is purchase cost reductions. We will consolidate orders and improve purchasing efficiency. We estimate that the impact of cost reduction through a review of transaction methods and contracts with suppliers and manufacturers will be JPY3.0 billion. In addition to consolidating orders, we are also reviewing production sites and local settlements and reducing indirect costs. We expect cost benefits to be realized starting with the spring/summer 2025 production.

Second, we will optimize supply and demand management and implement strategic pricing and sales. We have been reviewing our price setting, sales promotions, and sales measures. We will optimize the SKUs and volumes based on supply and demand forecasts. Previously, the focus was on numbers and sales, but there were brands with an excessive number of models and volumes. We will reorganize these areas comprehensively, focusing on sales concentration and increasing turnover. We expect a reduction of approximately JPY2.5 billion through it.

Regarding the setting of retail prices, we are considering starting with brands with short product cycles and will aim to achieve gradual effects starting with fall/winter 2024 products. At the same time, we are studying ways to upgrade and standardize our inventory and markdown control processes.

Third, store reform. We will seek to improve the efficiency and productivity of store staffing and optimize staff placement across all brands in all areas. In particular, we are working to create an infrastructure for realizing shared-brand sales staff in a way that enables human resources to effectively follow up from area to area and in stores and regions lacking in sales staff.

In addition, we aim to identify roles within the sales staff to enable efficient operations and restructure their career paths.

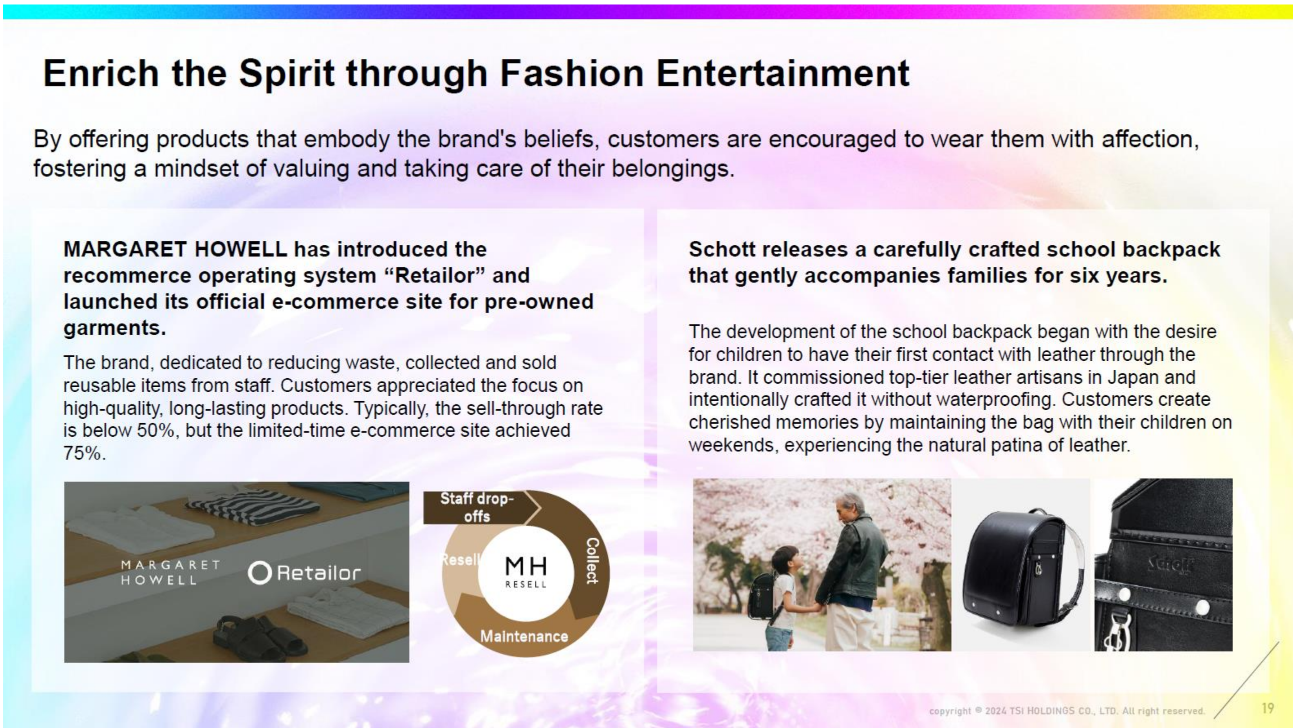
We will also consolidate unprofitable stores. Instead of withdrawing from the market altogether, we would like to integrate and open large-scale stores. The impact of this improvement is expected to be approximately JPY1.5 billion.

Fourth, e-commerce integration and system renewal. We aim to consolidate our company's over 30 individual e-commerce sites, each for a different brand. We plan to integrate approximately 13 sites into one this fiscal year, and the new consolidated site will launch next fiscal year.

We aim to consolidate more e-commerce sites and overhaul the system to enhance operational cost efficiency. This is expected to result in an improvement of approximately JPY500 million. To rebrand and integrate the individual e-commerce sites into one of our e-commerce sites, “MIX. Tokyo,” we are currently working with each site on issues such as the direction of their digital channels, functional design, and integration of membership services.

Fifth, we are streamlining SG&A costs. We will aim to manage revenues and expenses across brands. We will review our cost and staffing structure by the positioning of our brands and the ROI of our initiatives. We anticipate approximately JPY2.5 billion as the impact of that effort. We are reducing SG&A expenses more than planned by strengthening cost controls across the board. As we seek to further reduce costs and improve efficiency, we are introducing new mechanisms, including delivery, materials, and other areas that can be integrated.

We are also moving forward with integrating material-related products, such as woven labels and corrugated cardboard boxes. Including the effects of the improvements summarized above, we have set a minimum target of approximately 10 billion yen for the fiscal year ending February 2027. So far, we have made good progress, and we believe we can expect to achieve this goal.



Q1 topics. We provided products that reflect our brand's values, fostering more robust connections between the products and our customers while promoting a mindful approach to material possessions and treating clothes with care.

MARGARET HOWELL launched an e-commerce site that promotes used items owned by the brand staff. Used items were listed for sale. We collect reusable items our staff members own and maintain and resell them to reduce waste. It realizes the brand's commitment to selling quality products that can be used long-term. We received a very warm and favorable response from our customers. That time-limited e-commerce site achieved a 75% sell-through, while it is 50% or less on the Retailor's average. We aim to advocate for the continuation and expansion of this trial to make it company-wide.

Schott, the US-made leather jacket brand, began selling leather-made school bags. We hope to create something new through collaboration with artisans in this type of manufacturing project. We also hope that customers will experience how long the high-end leather products can withstand prolonged use.

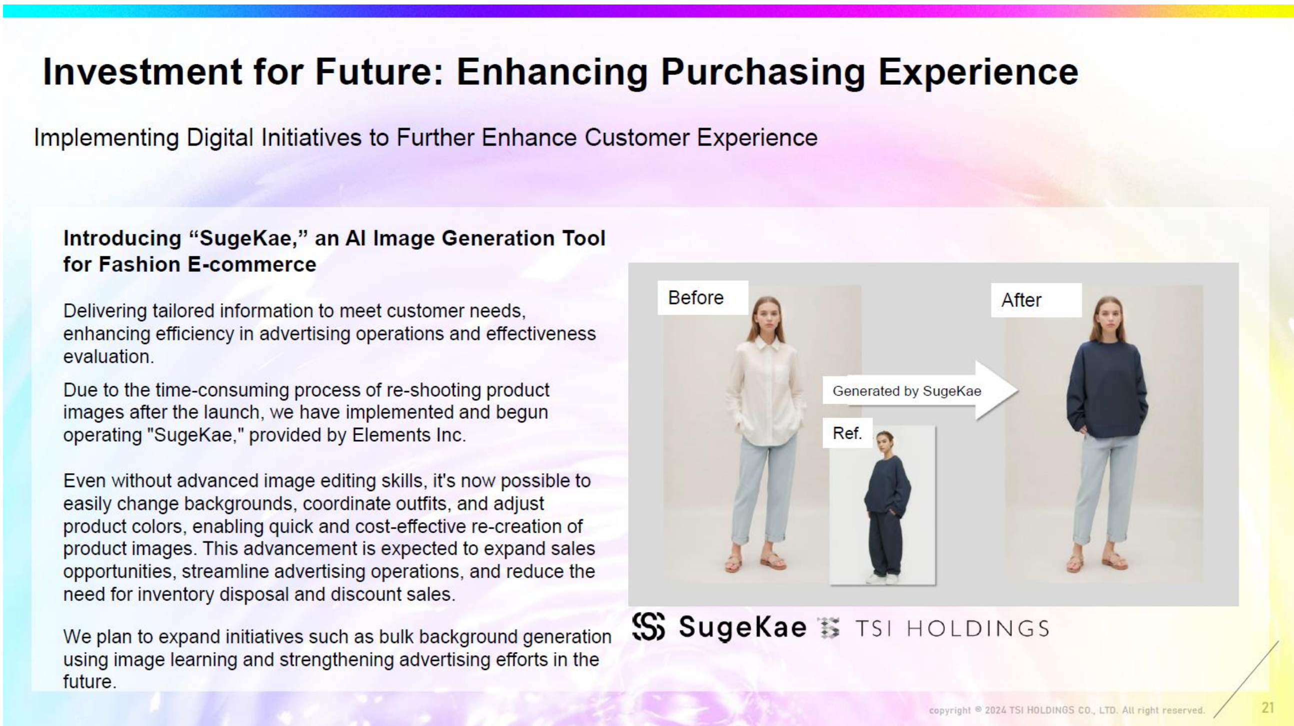
We will develop our business activities so that our customers, the community, and ourselves can all share sustainable happiness together. Through our clothing, we support “MOVE WEAR,” a new clothing-type arm robot developed by inventor Ory Yoshifuji. We have begun a project to jointly develop clothing for “MOVE WEAR,” a clothing-type arm robot developed by OryLab to support people with ALS, an intractable disease.

This is a joint project with the NANO universe design team. In addition, the Engineering Department of TORAY INDUSTRIES Inc. joined the project to provide materials. Also, teams of researchers from Tokyo University, Keio University, and Waseda University participated in the project.

We believe that technology is one tool in creating a borderless society, and we are supporting and designing a new way for people who have lost the ability to move or speak to express themselves in various ways by accessing modern technology.

Masatane Muto, an ALS patient, will perform as the DJ for an event in November 2024. We will support the event by providing costumes.

On January 1st of this year, there was an earthquake on the Noto Peninsula, and we would like to express our sympathy to those who were affected by the disaster. We want to express our sympathy to those genuinely affected by the earthquake. As Urth Caffé, we offered freshly baked cookies and freshly ground coffee. We thought it would be a comforting touch in a stressful life, and we hope they had a relaxing time with a smile on their faces, even if it was only for a short time.



We will implement digital initiatives to improve the value of the customer experience further.

SugeKae, an AI image generator tool for the fashion EC business, has been introduced and is now in operation within the in-house EC. Even those without image editing skills can easily change backgrounds, coordination, and photo colors, enabling low-cost and quick remaking of product images. In the future, we plan to expand in tandem with initiatives such as batch background generation through image learning and advertising enhancement.

“Through the power of fashion entertainment, we will create empathy and social value around the world.” TSI Holdings Group will continue to strengthen its communication as a creator of fashion entertainment.

We are in the early stages of implementing structural reforms under our Medium-Term Business Strategy and are progressing steadily. It will take some time to see the concrete effects of these improvements, but we are confident that the new structural reforms will yield positive results. We appreciate your continued support and look forward to sharing our future achievements with you."

[END]

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Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
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.*
4. *This document has been translated by SCRIPTS Asia.*

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