



TSI HOLDINGS

**TSI HOLDINGS CO., LTD.**

Q2 Financial Results Briefing for the Fiscal Year Ending February 2025

October 15, 2024

## 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>	Q2 Financial Results Briefing for the Fiscal Year Ending February 2025	
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<b>[Time]</b>	10:00 – 11:00 (Total: 60 minutes, Presentation: 37 minutes, Q&A: 23 minutes)	
<b>[Venue]</b>	Webcast	
<b>[Venue Size]</b>		
<b>[Participants]</b>		
<b>[Number of Speakers]</b>	5	
	Tsuyoshi Shimoji	President and CEO
	Masanori Maekawa	Executive General Manager, Director of Platform Headquarters
	Mitsuru Naito	Executive General Manager, Director of Corporate Headquarters
	Genya Oshiki	Executive General Manager, Director of Business Headquarters
	Shunsuke Hasegawa	Manager of Public & Investor Relations

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## Question & Answer

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

Now, I would like to start the Q&A session.

**Tokai Tokyo Intelligence Laboratory [Q]:** First, regarding the effect of the reduction in SG&A expenses, it appears that the reduction in H1 has exceeded the initial full-year target of JPY 1.44 billion. I would like to know the details of the reduction measures taken and the outlook for H2.

The second point is the JPY 3 billion benefit expected from the earnings structure reform and the progress of structural reforms. It seems that H1 was not included in the waterfall chart, but could you elaborate on the expected impact in H2 and the progress made during H1?

**Naito [A]:** I would like to explain the reduction in SG&A expenses you asked about.

First of all, I would like to address the first point of your question, which is the status of the plan comparison. As I mentioned earlier in my explanation, H1 was more effective than initially expected. We believe that the initiatives implemented in H1 have generated early positive effects, and at this point, the outlook for reductions in H2 is expected to be in line with the full-year forecast. However, we believe that if we were able to achieve reductions ahead of schedule, there is potential to make even further reductions with additional effort. With this in mind, we aim to exceed the original full-year reduction target. That said, at this point, we are incorporating the reductions into our projections as planned. Regarding the effects of profit improvement and the progress of structural reforms, although these were not fully reflected in the materials for the H1 result briefing, the reduction of SG&A expenses has partially contributed to H1. This reduction is expected to continue into H2. In terms of sales, we aim to see results through our pricing strategy and controlled discounting to clear inventory. As for the reduction in procurement costs, significant effects are expected to be realized from the next fiscal year onward rather than within the current fiscal year.

In terms of SG&A expenses, some reductions were achieved in H1, and we expect continued positive effects in H2, particularly in advertising and logistics expenses. Previously, inter-store logistics were carried out in an uncoordinated manner, with stores transferring inventory as needed without any specific control. By establishing certain rules, we are able to implement more efficient batch transfers. The initiative began midway through H1, and we are gradually seeing the effects. We expect greater benefits in H2.

In regard to the withdrawal of certain businesses, some upfront costs will be incurred this fiscal year. However, if we are able to complete the withdrawal within the current fiscal year, we expect to see benefits starting from the next fiscal year onward.

As I mentioned earlier, the cost reductions will have a significant impact on H2. Since progress in H1 has been in line with the plan, we are continuing our efforts to ensure that we either meet or exceed the plan in H2. I hope you will look forward to the results.

That concludes my explanation.

**Shimoji [A]:** Thank you for your question.

First of all, with the reduction of SG&A expenses, we have been focusing on areas that were previously difficult to address. For example, with advertising, we have established a Company-wide policy to shift from print media to digital platforms as much as possible, and we have set clear themes to narrow down our focus.

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By doing so, we've seen a shift in the balance between sales and cost-effectiveness, and we plan to continue this approach in H2. As for structural reforms aimed at improving profitability, we are tackling each issue not only at the business level but also as a company-wide initiative, identifying and addressing key points.

As Naito mentioned earlier, we believe we are in a better position to see the results, but we will remain focused and will continue to proceed carefully. Beyond just growing sales for our existing brands, we are also working to improve the overall quality by emphasizing added value, which we believe will contribute to a stronger and more resilient structure moving forward.

This is all I have to say.

**Tokai Tokyo Intelligence Laboratory [M]:** Thank you very much for your explanation. It was very clear. That is all from me. Thank you very much.

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

Next, we got two questions from Daiwa Securities.

**Daiwa Securities [Q]:** First, regarding future pricing, you mentioned that experimental market value-based pricing will begin in the fall/winter of 2024. How significant will the changes be compared to previous prices? Will the pricing adjustment be made for each product within the brands? Also, will this pricing approach be expanded to all TSI brands in the future?

**Oshiki [A]:** This is Oshiki. Thank you for your question.

Regarding pricing, we initially started with two brands, NATURAL BEAUTY BASIC and MARGARET HOWELL.

As we explained earlier, in terms of pricing, we often relied on intuition and past experience for pricing decisions. This time, however, we have focused on three main aspects: conducting research on the items of competing brands, clarifying the role of each item within our own brand, and investigating the value customers perceive in purchasing products from our stores. By thoroughly analyzing these three factors, we have developed a more strategic approach to pricing. Rather than raising prices across the board, we are strategically adjusting pricing based on the resilience of each item. For items with strong demand, we raise the price, while for weaker items, we consider lowering it. We are implementing a strategic approach, focusing on clearly defining the PDCA cycle and improving precision.

Going forward, we will continue to refine our pricing strategy while monitoring results at the storefront. This process will initially involve the two brands mentioned earlier, followed by ten additional brands this fiscal year. We will enhance accuracy through continuous PDCA cycles.

That is all I have to say.

**Shimoji [A]:** We are starting with businesses that are becoming saturated in the market.

Although the market itself has expanded considerably, many brands are entering it. However, our brand holds a significant market share driven by trust and reputation. We believe that, compared to other companies, we have built a stronger sense of trust and connection with our customers.

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By refining the perceived value of our products and brands, we believe we can further strengthen these relationships, as reflected in the data. Moving forward, we aim to enhance value creation.

Rather than aiming for drastic changes in unit price, we believe significant progress will be achieved through careful and gradual improvements. That is all. Thank you very much.

**Daiwa Securities [Q]:** Regarding your outlook on the golf market, you have been clearing inventory during the first half of the fiscal year. When do you expect the inventory clearance for golf-related brands to be completed, and when do you anticipate the market to recover?

**Naito [A]:**

The major trend is that the market grew significantly during the COVID-19 pandemic, as golf was one of the few recreational options available amid various restrictions. For about two years, we experienced more than double-digit annual growth. However, once the pandemic subsided and recreational options diversified, the golf market quickly stabilized, reflecting the current state of the industry.

In the midst of this situation, as you asked, we have been steadily working since the beginning of this year to eliminate the old inventory of products from previous years, which has become a heavy burden for us.

We plan to nearly complete the inventory clearance by the end of this fiscal year and aim to achieve significant progress by then. Although demand for golf wear is not growing, it remains stable, and the situation at golf courses has not changed—bookings are still difficult to secure. We believe that the market isn't shrinking, but that surge in demand during the pandemic has simply subsided, returning to normal levels. We will adjust our product strategy in line with this reality.

We aim to optimize our inventory level by the end of the current fiscal year and, from the next fiscal year onward, further enhance our competitive edge in a more stabilized golf market.

**Shimoji [A]:** Thank you for your question.

As Naito explained, the market itself has become very stable, so we would like to concentrate on solid branding and manufacturing.

We would like to increase our connection with our customers through branding and events in a way that nurtures the next generation, so we hope you will look forward to our activities.

Thank you very much.

**Daiwa Securities [M]:** Thank you very much for your detailed answer. That is all from me.

**WWD [Q]:** First, regarding PEARLY GATES, NANO universe, and MARGARET HOWELL, how do you see their brand competitiveness, and how much can they grow from their current performance?

Second, regarding the reduction of personnel in the headquarters as part of the structural reform, is there any possibility of voluntary retirement? Also, have you decided on the specific brands to withdraw?

**Shimoji [A]:** Thank you for your question.

First of all, regarding PEARLY GATES' market position, we already hold a significant share of the domestic market. Looking ahead, rather than focusing solely on increasing sales, our aim will be to maintain this share while enhancing profitability. Additionally, we see expansion into the Asian market, particularly Southeast Asia, as a key pillar for our future growth strategy.

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MARGARET HOWELL operates two main lines— MHL and MARGARET HOWELL. With a legacy spanning 50 years, we are committed to creating stores that truly embody the brand's vision. Additionally, we are strongly focused on further evolving the brand across Europe and North America.

NANO universe had previously expanded its e-commerce business through third-party platforms. However, after the pandemic, the brand underwent rebranding efforts, strengthening its stylish identity while broadening its offering to include items at more accessible price points alongside its premium range. Now positioned to contribute to profitability, we aim to solidify the brand's growth, including within existing commercial facilities.

**Moderator [M]:** Thank you very much. Now, let me move on to the second point. Regarding the reduction of headquarters personnel for structural reform, Naito, Executive General Manager of Corporate Headquarters, will answer.

**Naito [A]:**

In the progress report on structural reforms announced on September 25, we stated that we would be streamlining the headquarters organization by approximately 20%, including brands we are planning to withdraw from the market.

During the structural reforms carried out four years ago, we offered voluntary retirement, allowing employees to apply based on their own wishes. This time, however, the process will not involve voluntary retirement. Instead, it will be conducted through a careful review of each organization and the planned brand withdrawals, followed by an overall effort to streamline the organization.

As for the brands planned for withdrawal, we are in ongoing communication with our business partners, and therefore, we will refrain from commenting further at this time.

That is all I have to say.

**WWD [Q]:** Thank you very much.

One more question regarding the NANO universe, the first point. You mentioned that it has or is beginning to show prospects for further growth. Is it specifically in terms of products, or what areas are starting to improve in particular? Can you tell us further details?

**Oshiki [A]:** Well, I will answer this part.

As for the NANO universe, we have already gone through a branding reform once, but now, we are revising it again, with a particular focus on brushing up the merchandising (MD) strategy. We are also strengthening the visual merchandising (VMD) in the stores, which has proven to be very effective in boosting sales. Additionally, by reducing reliance on e-commerce and focusing more on in-store operations, we are seeing positive results, as merchandising is now better aligned with feedback from the storefronts.

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

**Moderator [M]:** Since there seem to be no more questions and the time is almost up, I would like to conclude this briefing on the financial results for H1 of the fiscal year ending February 28, 2025. Thank you very much for your time today.

**Company Representative [M]:** Thank you very much.

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