# TSI HOLDINGS CO., LTD.

Financial Results Briefing for the Fiscal Year Ended February 2025

April 14, 2025

# Event Summary

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| **[Company Name]** | TSI HOLDINGS CO., LTD. |
| **[Company ID]** | 3608-QCODE |
| **[Event Language]** | JPN |
| **[Event Type]** | Earnings Announcement |
| **[Event Name]** | Financial Results Briefing for the Fiscal Year Ended February 2025 |
| **[Fiscal Period]** | FY2025 Annual |
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| **[Number of Pages]** | 9 |
| **[Time]** | 10:00 – 10:57<br>(Total: 57 minutes, Presentation: 29 minutes, Q&A: 28 minutes) |
| **[Venue]** | Webcast |
| **[Venue Size]** | |
| **[Participants]** | 53 |
| **[Number of Speakers]** | 6 |

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|---|---|
| Tsuyoshi Shimoji | President and CEO |
| Mitsuru Naito | Executive General Manager & CFO, Director<br>Group Strategy Headquarters |
| Genya Oshiki | Executive General Manager |
| Kazuhito Yamamoto | Director Production Headquarters |
| Shunsuke Hasegawa | Manager of Public & Investor Relations |

## Question & Answer

**Moderator [M]:** Thank you very much. Now we would like to move into the Q&A.

We received four questions from Tokai Tokyo Intelligence Laboratory Co., Ltd.

**Tokai Tokyo [Q]:** First of all, what will the impact of reducing SG&A expenses be? You mentioned that it was more than JPY3 billion compared to the fiscal year ended February 29, 2024, and the fiscal year ended February 28, 2025. What impact do you anticipate in the current fiscal year compared to the previous fiscal year ended February 28, 2025?

Second, the plan for the current fiscal year ending February 28, 2026, projects business growth of JPY2.97 billion and earnings structure reform effects, but I think the plan shows a decrease in revenue. To what extent do you expect your business to grow?

Third, regarding the impact of the profit structure reform, how would you analyze the effects of the closure of unprofitable stores and headcount reductions, both implemented in the previous fiscal year ended on February 28, 2025, and the improvement in gross profit margin?

Fourth, regarding shareholder returns, could you outline your future policy on holding investment real estate and securities?

**Moderator [M]:** The first question is, how much impact do we expect from the reduction of SG&A expenses in the current fiscal year compared to the fiscal year ended February 28, 2025? CFO Naito will answer.

**Naito [A]:** I will answer your question. Regarding the impact of the reduction in SG&A expenses compared to the previous fiscal year, we cannot provide a precise figure, as some of the reductions are embedded within other cost categories and are not separately identifiable. The most significant impact has been the streamlining of head office personnel carried out in the previous fiscal year, and this has been yielding results since the beginning of the current fiscal year.

Additionally, by integrating the e-commerce platforms of brands into *mix.tokyo*, we are seeing reductions in maintenance costs and other expenses, although some reinvestment is necessary. Overall, we estimate that the cost reduction will be in the range of JPY1 billion to JPY1.5 billion compared to the previous fiscal year.

**Moderator [M]:** The second question is, what is our business growth projection for the current fiscal year ending February 28, 2026? CFO Naito will answer this question as well.

**Naito [A]:** This JPY2.97 billion represents both growth and profit improvement. As CEO Shimoji explained earlier, the plan shows a decrease in sales. However, sales are projected to grow by just under 2%, excluding the impact of the withdrawal.

Growing businesses, such as *and wander* and *Avirex*, both highlighted earlier as strong-performing brands, with *Avirex* celebrating its 50th anniversary this year, are having a significant positive impact. We estimate that 30% to 50% of our business growth and profit improvements come from these businesses.

**Shimoji [A]:** Thank you for your question. In terms of growth, our core segments, including golf wear, business attire, and light casual wear offered through our golf wear brands, *NATURAL BEAUTY BASIC*, and *NANO universe* have been sluggish since the COVID-19 pandemic.

The golf wear market has been facing challenges since peaking in 2022. However, these three core brands are beginning to show signs of improvement in profitability through enhanced inventory optimization efforts.

We made the decision to withdraw several brands. As a result, overall growth may appear modest. However, if we exclude the impact of those exits, we are seeing a small but fairly stable increase in growth.

As Naito mentioned, the number of strong-performing brands is increasing significantly, which we view positively. We intend to make solid investments in this area moving forward.

**Moderator [M]:** The third question is regarding the impact of the profit structure reform. How would we break down the impact among unprofitable store closures, headcount reductions, and improvements in gross profit margin? CFO Naito responds to this question as well.

**Naito [A]:** As we mentioned earlier, the structural reforms of the previous fiscal year and the current fiscal year, the first half in particular, will be more effective in terms of cost reductions.

Conversely, in the second half of the current fiscal year and looking ahead to the JPY10 billion target for the next fiscal year, we expect improvements in gross profit, particularly through pricing adjustments, and reductions in procurement costs, which will take a certain period of time to materialize. Within the TIP27 period, we anticipate cost reductions to materialize in the earlier phases, while improvements in gross profit are expected to play a greater role in the latter half. Although it's difficult to provide a precise breakdown, we would like you to understand that the contribution of gross profit improvements is expected to grow over the current and subsequent fiscal years.

**Moderator [M]:** The fourth question is regarding shareholder return. CFO Naito, could you share our thoughts on our future approach to holding investment real estate, investment securities, etc?

**Naito [A]:** In the previous fiscal year, we were able to record real estate sales gains exceeding our original projections. As a result, we announced additional shareholder returns totaling over JPY10 billion.

This is not the end of our efforts to reduce non-core assets. The major portion of our real estate divestment was completed in the previous fiscal year, and our focus will shift to reducing cross-shareholdings. We have been working on this since the previous year, and from this fiscal year onward, we will further accelerate our efforts to reduce non-core assets and cross-shareholdings.

The earnings generated in conjunction with these efforts will be taken into account, and we will consider revisiting our shareholder return policy as appropriate.

**Tokai Tokyo [Q]:** Thank you very much. You mentioned in the cost reductions section of the presentation that the impacts of structural reforms are expected to be reflected in the first half of this fiscal year. The planned operating income for the first half is JPY1 billion, and JPY5.7 billion for the full year, so I assume that the second half will carry significant weight. Could you please elaborate further?

**Naito [A]:** When we talk about the "first half," we mean the early phase of our medium-term plan, during which the impacts of SG&A cost reductions have been most prominent, specifically in the previous fiscal year and the first half of the current fiscal year. Naturally, the benefits from these structural cost reforms will continue to be realized in the second half and beyond. While the core initiatives were concentrated in the previous fiscal year and the first half of the current fiscal year, the impact will be felt throughout the full fiscal year.

Now, regarding the operating income target of the first half of the fiscal year, which is JPY1 billion, historically, we've had a hard time generating significant profit in the first half due to our business structure. But this year, we're expecting record-high profit levels, both for the first half and full year.

This is not simply the result of front-loaded cost reductions. The projected split, JPY1 billion in the first half and JPY4.7 billion in the second half, reflects both the restructuring of our business foundation and the ongoing impact of our cost-efficiency initiatives.

**Tokai Tokyo [M]:** It became very clear. That is all from me. Thank you very much.

**Moderator [M]:** Thank you very much. Now to the next question. This is an anonymous question.

**Anonymous A [Q]:** M&A is included in the growth investments for cash allocation, but what specific areas or companies are you thinking of?

**Naito [A]:** We are not targeting a specific sector for M&A or growth investment at this stage, but we are looking to develop opportunities both within the apparel business and in adjacent areas.

Our current portfolio centers on women's apparel, sportswear, and street casual wear. At the same time, it leans toward lifestyle and basic products in the mid to high price range, with limited offerings in the lower price range.

We see areas within our apparel portfolio that could be strengthened, and we are also looking to explore a range of opportunities, including businesses adjacent to apparel.

**Shimoji [A]:** Thank you for your question. As Naito mentioned, the market continues to become increasingly polarized. In response, we are exploring two directions: one is the mass market segment, where we aim to offer products that are both affordable and fashion-forward; the other is the more premium segment, where we are considering offerings that support a simple yet high-quality lifestyle.

These two axes reflect our desire to fully express our strengths, aligned with the purpose of "fashion entertainment."

In the premium market, we're also looking to develop brands with more distinctive branding. Additionally, we are considering investments in lifestyle-related areas that naturally connect with these concepts.

**Moderator [M]:** Thank you very much. Now we hear from Amundi Japan.

**Amundi Japan [Q]:** Could you please explain the breakdown of JPY5.7 billion in operating income for the current fiscal year ending February 28, 2026?

**Naito [A]:** Page 28 of the slide. Let me explain. The leftmost column shows the results for the previous fiscal year. The JPY2.73 billion in one-time expenses for the previous fiscal year includes withdrawal costs associated with structural reforms and expenses for the temporary use of a third-party consultant, among other things.

In particular, we have been withdrawing from a number of businesses, including those overseas, and these costs are included in this category.

Since many of the businesses we exited in the previous fiscal year were operating at a loss, their withdrawal will eliminate those losses from the current fiscal year, resulting in a positive impact on operating income.

Moving on to the negative JPY2.18 shown on the right side represents the portion that has a negative impact on earnings, essentially investment-related costs. These include expenses for initiatives such as the integration of our e-commerce platforms aimed at improving performance, as well as advertising and promotional spending, which was scaled back in the previous fiscal year. In the current fiscal year, we plan to make strategic, targeted investments in these areas.

In addition, we've referred to this as "improvement of compensation," and given recent trends, including rising concerns around starting salaries, enhancing employee compensation has become increasingly important. As part of human capital investment for the future, we are allocating resources in this area, which contributes to the negative impact on earnings in the short term.

On the other hand, as mentioned earlier, we expect to see the positive effects from business growth and profit structure reforms, including reductions in personnel costs from the previous fiscal year, the impact of the e-commerce platform integration, and improvements from pricing and procurement cost reductions that are expected to be significant, especially in the second half of the current fiscal year. Taking all of these factors into account, we expect to generate a profit of JPY5.7 billion.

**Moderator [M]:** Any additional questions?

**Amundi Japan [Q]:** So, the JPY2.97 billion increase in business growth is the result of the structural reforms that you mentioned earlier, which you said had an effect of JPY1 billion to JPY1.5 billion this fiscal year compared to the previous fiscal year. Am I correct in understanding that profits have increased due to business growth?

**Naito [A]:** JPY1 billion to JPY1.5 billion that I mentioned earlier are from the perspective of cost reduction, in particular, labor costs.

The impact of gross profit improvement, including strategic pricing and procurement cost reductions, is included in this JPY2.97 billion. When combined with the growth of existing businesses, the total contribution amounts to approximately JPY3 billion.

**Amundi Japan [Q]:** So, the figures on the left side of slide 28, which show improved profitability reflecting initiatives up to the previous fiscal year, are based on impacts that are almost certain to be achieved, correct?

**Naito [A]:** Yes, they have already been realized.

**Amundi Japan [Q]:** Then, in terms of uncertainties, is it still a matter of how much of the JPY2.97 billion in business growth will be achieved?

**Naito [A]:** Exactly. The negative JPY2.18 billion also represents strategic investment. We will manage this carefully, making appropriate trade-offs while monitoring growth. Our intention is to carry out the planned investments properly and steadily build up profits in line with our targets.

**Amundi Japan [M]:** I understand. Thank you very much.

**Moderator [M]:** Thank you very much. Now to the next question. This is another anonymous question.

**Anonymous B [Q]:** As stated on slide 5, you expect to make strategic investments in the fiscal year ending February 28, 2026, at a level close to the one-time expenses recorded in the fiscal year ended February 28, 2025. Can you please explain this in more detail?

Also, with regard to the JPY10 billion operating income target for the next fiscal year, should we understand that this will be built on top of the JPY8 billion income level, which consists of the JPY5.7 billion operating income for the current fiscal year plus the one-time strategic investments, by layering an additional business growth and structural reform effects?

**Naito [A]:** I believe the first part of your question overlaps with a previous one, so I'll answer the latter part.

Regarding our efforts toward achieving JPY10 billion in operating income next fiscal year, we expect to post JPY5.7 billion in operating income this fiscal year, after making JPY2.18 billion in strategic growth investments. While we recognize that continued investment will be necessary, if we add back the JPY2.18 billion in strategic costs to this year's operating profit, the figure comes to approximately JPY8.0 billion. We see this as a reflection of our underlying earning power at the end of the current fiscal year.

As for how we plan to build up the remaining JPY2 billion, most of the SG&A expenses reduction will have been completed by the previous and current fiscal years.

Regarding strategic pricing, we do not intend to take a blanket or overly aggressive approach. Instead, we are gradually expanding the number of brands involved, while keeping an eye on the market conditions and the positioning of the brands. We began seeing some impact from this in the second half of the previous fiscal year, but we expect the full effect to come through starting the second half of this fiscal year.

As for procurement cost reductions, it tends to take even longer to materialize than pricing, as purchasing decisions for products are typically made 12 to 18 months in advance. Although we have been working on this since the previous fiscal year, we expect the full impact to emerge from the second half of this fiscal year onward.

In that sense, the growth from the JPY8 billion baseline at the end of the current fiscal year to the JPY10 billion target for the next fiscal year will primarily come from pricing initiatives, procurement cost reductions, and the continued growth of brands performing well. We are simultaneously seeking M&A opportunities. We expect to accumulate the remaining JPY2 billion or so through structural reforms and growth strategies.

**Shimoji [A]:** Thank you for your question. As part of the major structural reforms since last year, we have initiated organizational reforms this fiscal year, with a focus on strengthening cross-functional collaboration. Each brand is working to enhance its capabilities in product and content development, while we are also reviewing our production systems to provide stronger operational support.

We have also established a more sophisticated framework for managing procurement costs and pricing, enabling us to set prices more precisely in line with the market conditions. I would like to ask Mr. Yamamoto, Director of Production Headquarters, to speak further.

**Yamamoto [A]:** I am Yamamoto, Director of Production Headquarters. As CFO Naito and CEO Shimoji just mentioned, we have been working on reforming our procurement structure as part of the broader structural reforms that began last year.

In the interest of time, I will provide a high-level overview. In the past, due to our organizational structure that prioritized the autonomy of business units and divisions, the number of suppliers expanded significantly, reaching approximately 1,500 companies, including around 500 suppliers for the SPA (Japanese term for vertically integrated apparel retailer) units. Since last year, we have been consolidating them, reducing the number of SPA-related suppliers by around 45% and narrowing them down to roughly three key trading companies. By doing so, we can control overall costs, including the trading company margins.

We are now shifting about 25% to 30% of our 80% or more of production in China to ASEAN countries. We will continue to monitor and report on the progress of the procurement initiatives, and I would also like to report the progress on a quarterly basis.

**Moderator [M]:** Thank you very much. And we thank all participants for your time today.

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

[END]

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***Document Notes***

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