

TSI Group Medium-term Management Plan FY2013 to 2015

2013.4.18

TSI HOLDINGS CO., LTD.

This Medium-term Management Plan is based on the TSI Group Medium-term Management Plan for the FY2012 to FY2014 period released in April 2012.

Although our corporate philosophy and mission as well as the themes of the Medium-term Management Plan have remained unchanged since the plan's release back in April 2012, we made certain additions and revisions to our individual group strategies and group growth scenario in consideration of changing the external environment and internal circumstances.

Any forward-looking statements contained herein including target values are those based upon management's judgment made on the basis of the information and data that were obtainable at the time of the creation of this document, and it should be noted that actual results may potentially differ materially from the statements contained herein owing to various factors.

I Ideal TSI Group

Corporate philosophy (management philosophy)

We create values that brighten up the spirit of people through fashion and share the joy of living with society.

Mission (basic management policy)

1. We deliver new fascination to society through creations that are ahead of the times.
2. We thoroughly implement a product-oriented business that aims to create truly valuable products.
3. It is our joy to change the emotions of our customers to excitement by offering them generous hospitality.

2. Form of TSI Group Management

The TSI Group's management policy set out in the TSI Group Medium-term Management Plan for the FY2012 to FY2014 period

Maximum use of group synergy

Execute new market strategies that were difficult to be implemented by individual companies

Create new values by combining different brands

Management based on the strongest business portfolio

Establishment of the “strongest business portfolio” in the fashion industry

→ Business areas × Brands × Business model

Diversified business areas



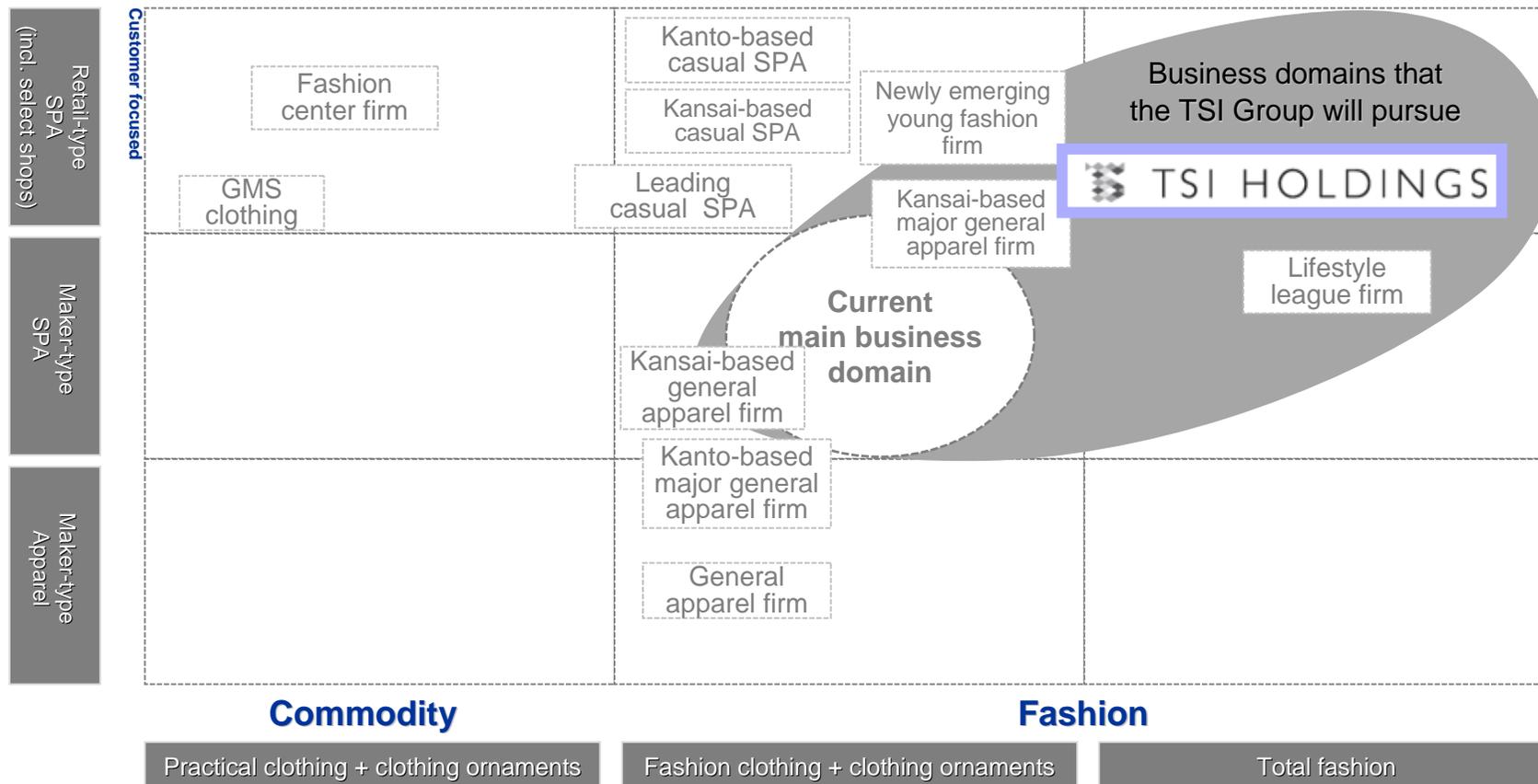
Continuous development and acquisition of new brands



Establishment of an optimal business model

3. TSI Group Business Domain

1. Even though we will discover changing market needs, **areas with high sensitivity and fashion** are the central domains, in principle.
2. We will expand business to **areas relating to total fashion** and move away from the conventional apparel business centered around clothing.



* The positioning of each company is based on our analysis and is presented according to the main business areas.

II TSI Group Growth Scenario

Pursue our group growth strategy according to the three themes set out in April 2012

Achieve renewed growth by implementing a structural reform without sanctuary

Medium-term Management Plan themes

(1) Reforming cost structure

→ Entering a total completion stage

(2) Improving profitability

→ Seek to achieve an optimal revenue generation structure

(3) Strengthening group management capabilities

Central policies

Achieve increased profitability for our existing businesses and pursue streamlined management leveraging our group advantages

Pursue an earnings-centric business policy towards achieving 5,000 million yen in operating income

Create synergistic effects through our group realignment program

5. Challenges and policies towards achieving renewed growth (marketing policies)  TSI HOLDINGS

Channel	Vision	Market assessment	Action points
Domestic channel	Rebuild a high profitability brand portfolio and store network	<ul style="list-style-type: none"> ● Fashion-related consumption other than that of apparel and clothes/sundries is expanding ● Recovery of apparel consumption is uncertain 	<ul style="list-style-type: none"> ● Develop new businesses designed to deliver new lifestyles and values ● Address our low profitability businesses on a group-wide basis
EC channel	Grow our EC channel sales to 10% of our total group sales	<ul style="list-style-type: none"> ● Make our actual stores and EC stores borderless (allow the customer to try on clothes at actual stores before buying them at EC stores) ● Sophisticate our action to meet customer needs (need to get ordered item as soon as possible!) 	<ul style="list-style-type: none"> ● Build an EC platform with a view to implementing our O2O strategy ● Perform a rebranding for our EC site
Overseas channel	Enhance our local brand capability	<ul style="list-style-type: none"> ● Slowing sales in China due to political problems ● Need to expand business in non-China markets while seeing China as the key market 	<ul style="list-style-type: none"> ● Expand sales in Hong Kong, Singapore and Europe markets ● Make JILLSTUART our flagship Asian brand ● Expand the business for Beijing M. Tsubomi Fashion Co., Ltd.

The TSI Group's aspiration: **“Pursue fashion’s potential”**



Expand our business domains in the overall fashion market without being constrained to the apparel business

Our domestic channel

(1) Expand our business domains: Develop new businesses with a view to engaging in M&A transactions

Want to promote customer's lifestyle scene with fashion



- Launch “laule’a sunny side store,” an adult surf and resort lifestyle idea shop format, in spring 2013
- Open “free peddler market,” a café-equipped lifestyle idea shop format that sells sundries, interior goods and flowers
- Launch in spring 2013 “Planet blue world,” an LA taste select shop format half of whose goods are living-related items
- Hold the “MHL. COMMUNITY MART” event as a new clothing, food and living item retailing format

Want to get a wider range of people enjoying golf



- Launch in spring 2013 “PEARLY GATES THE GREEN GOLF STORE,” a family line golf casual store format for the “PEARLY GATES” brand
 - · · Currently, negotiations are also underway for running multiple foreign brands in Japan

(2) Consider developing a business format capable of leveraging our group advantages

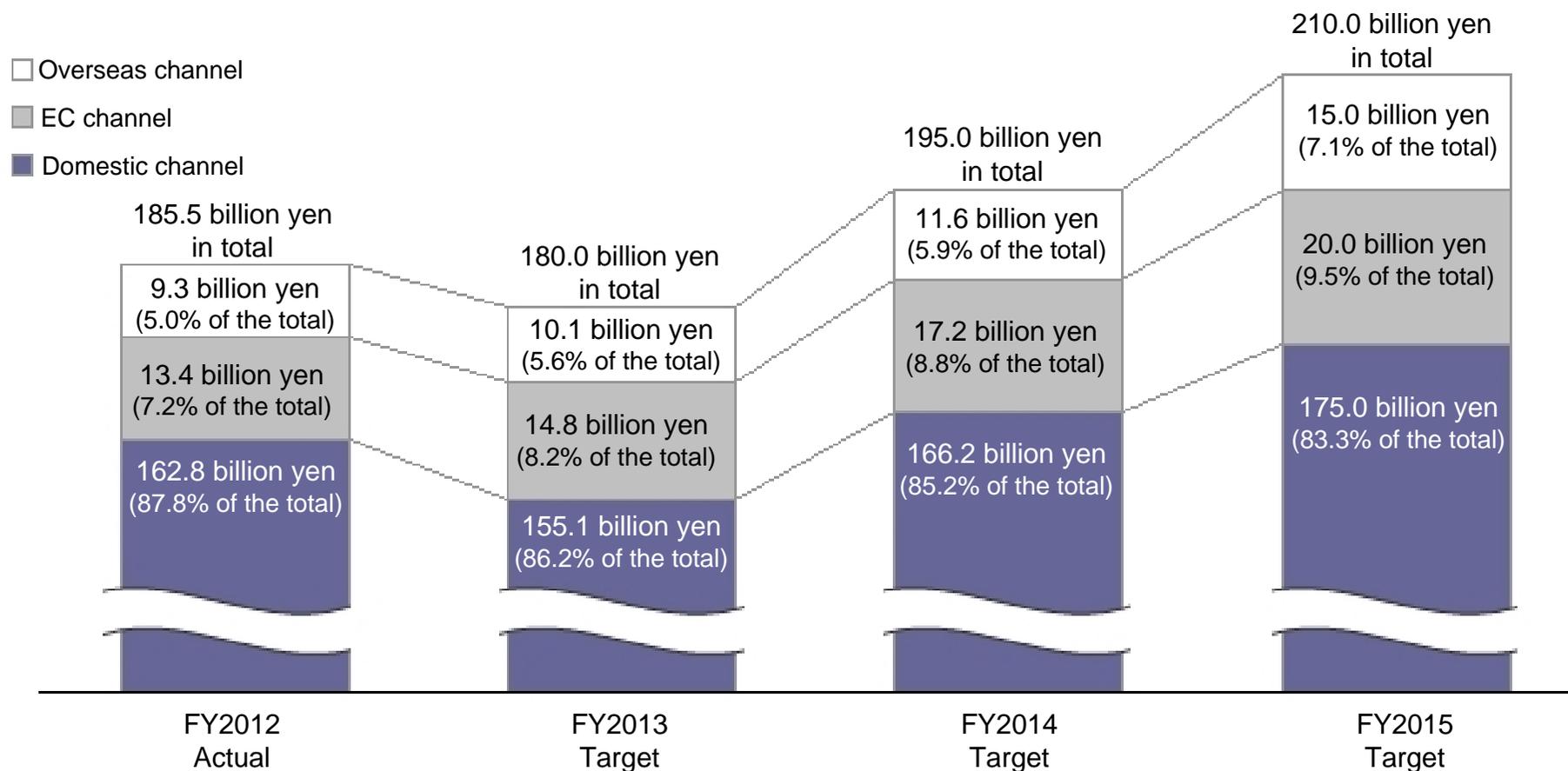
(3) Address the low profitability business and store issues on a group-wide basis

8. Specific measures aimed at enhancing our profitability (3)

Channel	Specific measures
EC channel	<p>(1) Step up the collaboration between our non-virtual stores and EC in terms of purchasing activities</p> <ul style="list-style-type: none">- Develop an EC platform in order to pursue our O2O (Online-to-Offline) strategy <p>(2) Launch “aptm.945 TOKYO”, a web-originated new brand</p> <ul style="list-style-type: none">- Implement an EC and store combination strategy <p>… Currently, preparations are also underway for launching web-originated brands by prominent designers</p> 
Overseas channel	<p>(1) Expand our Hong Kong business: Create synergistic effects by unifying our locally-based companies in 2013</p> <ul style="list-style-type: none">- Expand our operations in Hong Kong and Southeast Asia- Secure a local subsidiary marketing base in Singapore <p>(2) Expand overseas sales of MARGARET HOWELL</p> <ul style="list-style-type: none">- Invest aggressively in different European countries <p>(3) Make JILLSTUART our flagship brand in Asia</p> <ul style="list-style-type: none">- Continue to promote the localization of the JILLSTUART brand through an enhanced collaboration with our domestic headquarters <p>(4) Expand the business for Beijing Tsubomi Clothing Limited.</p> <ul style="list-style-type: none">- Seek to expand the business by launching new format-based operations other than existing female clothing operations

9. Our sales value targets by sales channel

	FY2012	FY2013		FY2014		FY2015	
	Actual	Target	Y/Y	Target	Y/Y	Target	Y/Y
Domestic channel	162.8 billion yen	155.1 billion yen	95.3%	166.2 billion yen	107.2%	175.0 billion yen	105.3%
EC channel	13.4 billion yen	14.8 billion yen	110.4%	17.2 billion yen	116.1%	20.0 billion yen	116.1%
Overseas channel	9.3 billion yen	10.1 billion yen	108.8%	11.6 billion yen	115.0%	15.0 billion yen	129.3%
Total	185.5 billion yen	180.0 billion yen	97.0%	195.0 billion yen	108.3%	210.0 billion yen	107.7%



Our production-related challenges and policies to address them

(1) Medium-term strategic tasks we should carry out

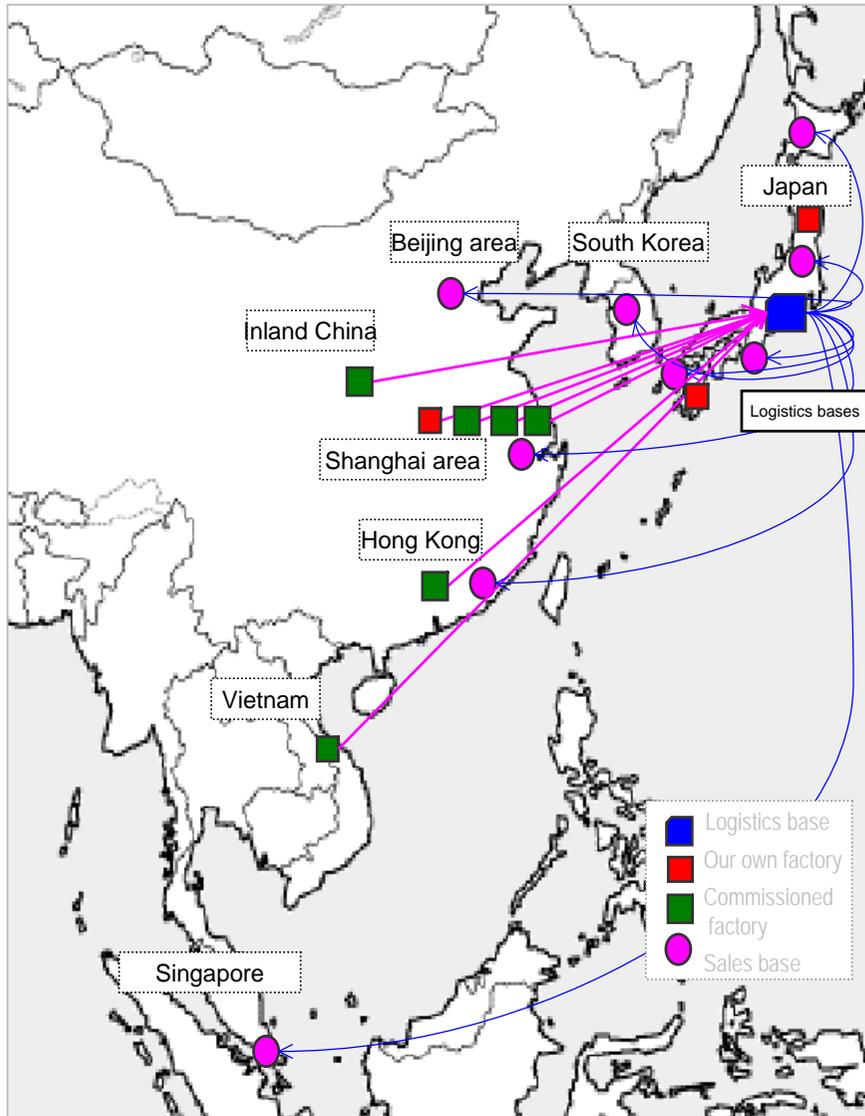
- 1) Rebuild our overseas production bases in a forward-looking manner
- 2) Streamline our domestic production platform
- 3) Revise and realign our domestic and overseas logistics base functions

(2) Our challenges and policies to address them

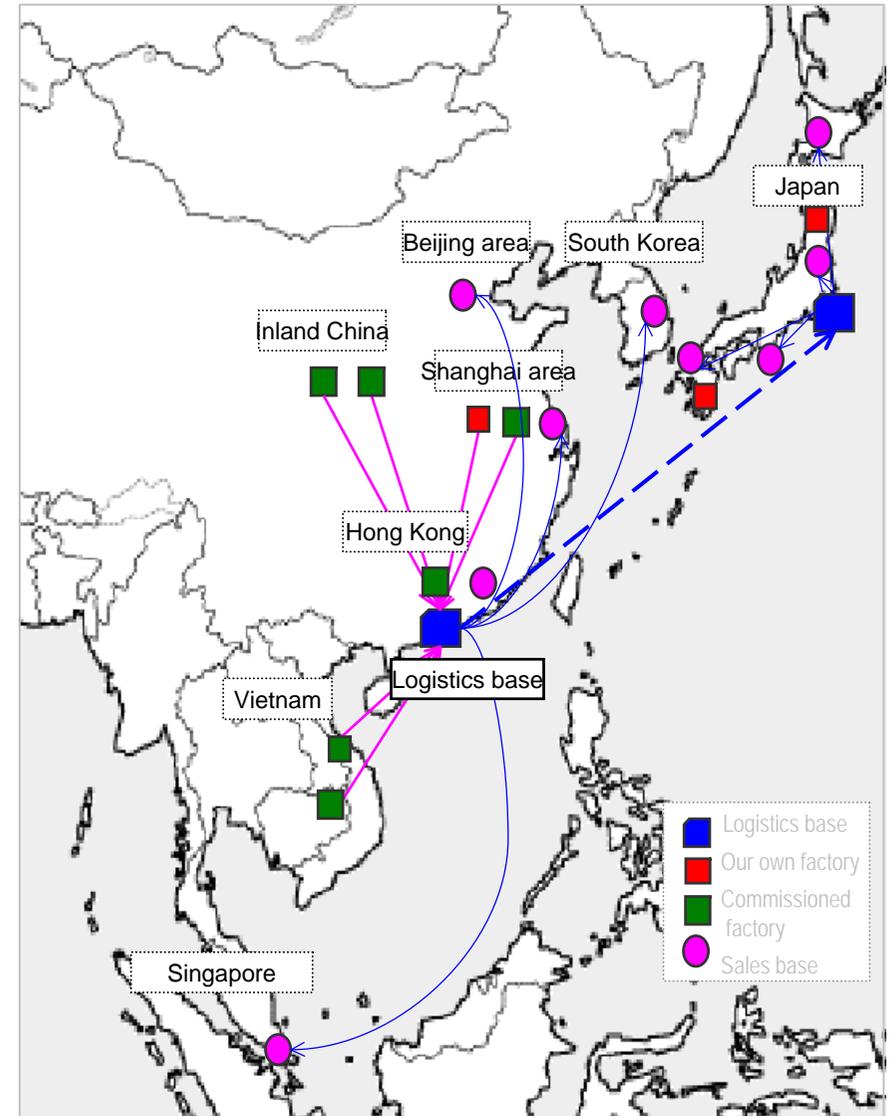
Individual task	Our challenge	Our policies to address challenge
<p>Rebuild our overseas production bases</p>	<p>A rapid increase in wage levels in China's coastal areas and in Thailand and Vietnam Mismatch between cost levels and technology and quantity levels in the ASEAN region Foreign exchange (weak yen) risk</p>	<ul style="list-style-type: none"> ● Relocate 20% of our east and north China area production to other country ● Develop our business in new ASEAN areas ● Seek to put in place an overseas factory designed for small-lot production
<p>Optimize our domestic production platform</p>	<p>Secure a sufficient level of labor force in Japan</p>	<ul style="list-style-type: none"> ● Secure small-lot production platform-based subcontractor factories ● Redefine the roles of our own factories and subcontractor factories and utilize them effectively

11. Our future supply chain picture

Now



Future



Currently, the TSI Group is in operation under a three-tier structure consisting of TSI HOLDINGS subsidiaries Tokyo Style and SANEI-INTERNATIONAL whose many subsidiaries are operating under their umbrellas, respectively (please see “Our current organizational chart” shown on the next page).

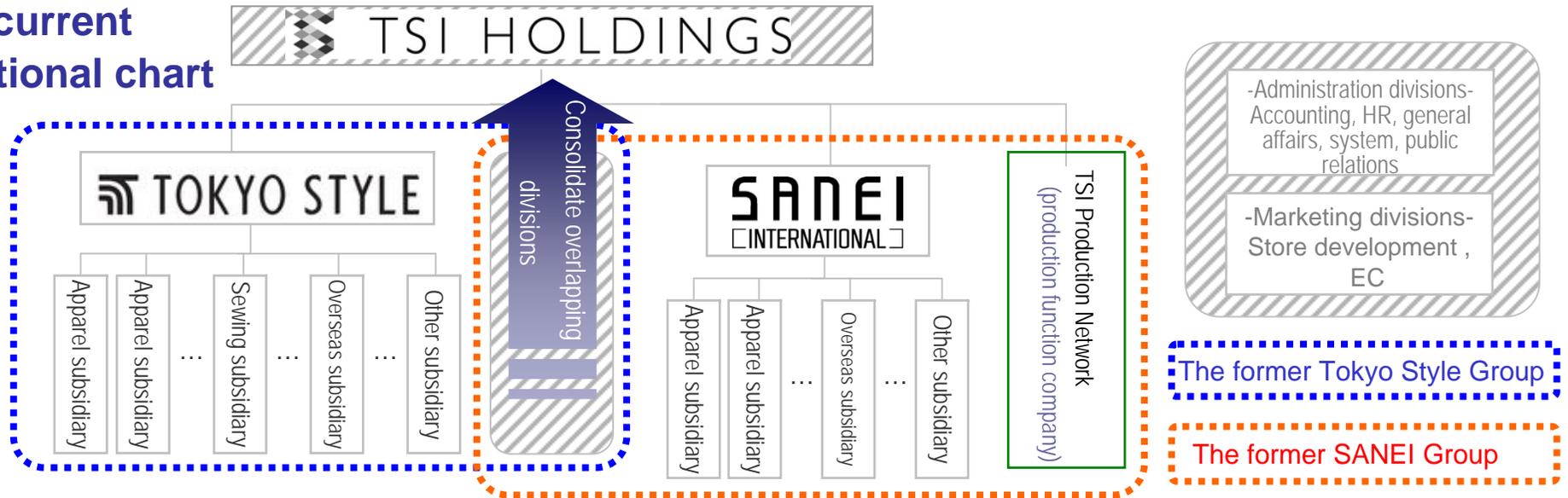
For an apparel company, “speedy action” is the key to success in running a business. A multi-layered organizational platform is detrimental to our decision-making speed.

It is for this reason that we think it reasonable for our individual business entities to operate as “flexible and small teams of efficient personnel” with backup support provided by the TSI HOLDINGS on a company-wide basis in the event of such entities needing additional corporate resources.

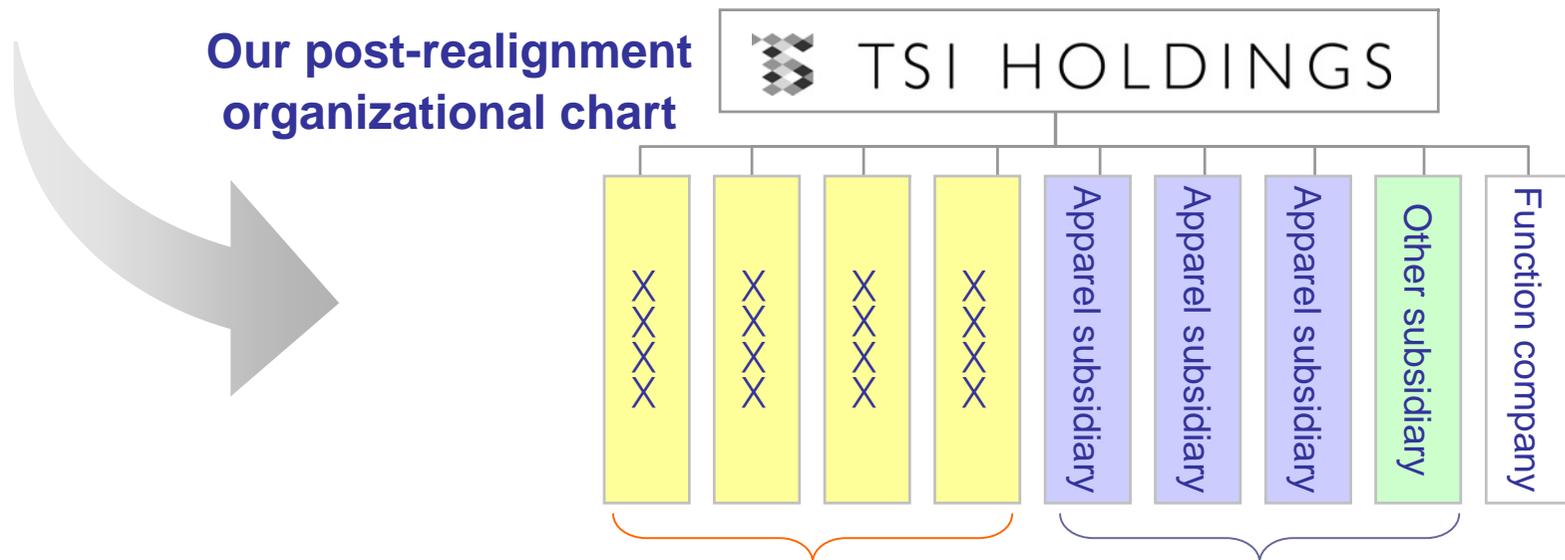
In order to pursue such business strategy that is optimal for the Group, we aim to eventually turn all our group companies into subsidiaries that operate directly under the umbrella of the TSI HOLDINGS, thereby building a flat group organizational platform (please see “Our post-realignment organizational chart” shown on the next page).

13. A picture of our post-realignment organizational platform

Our current organizational chart



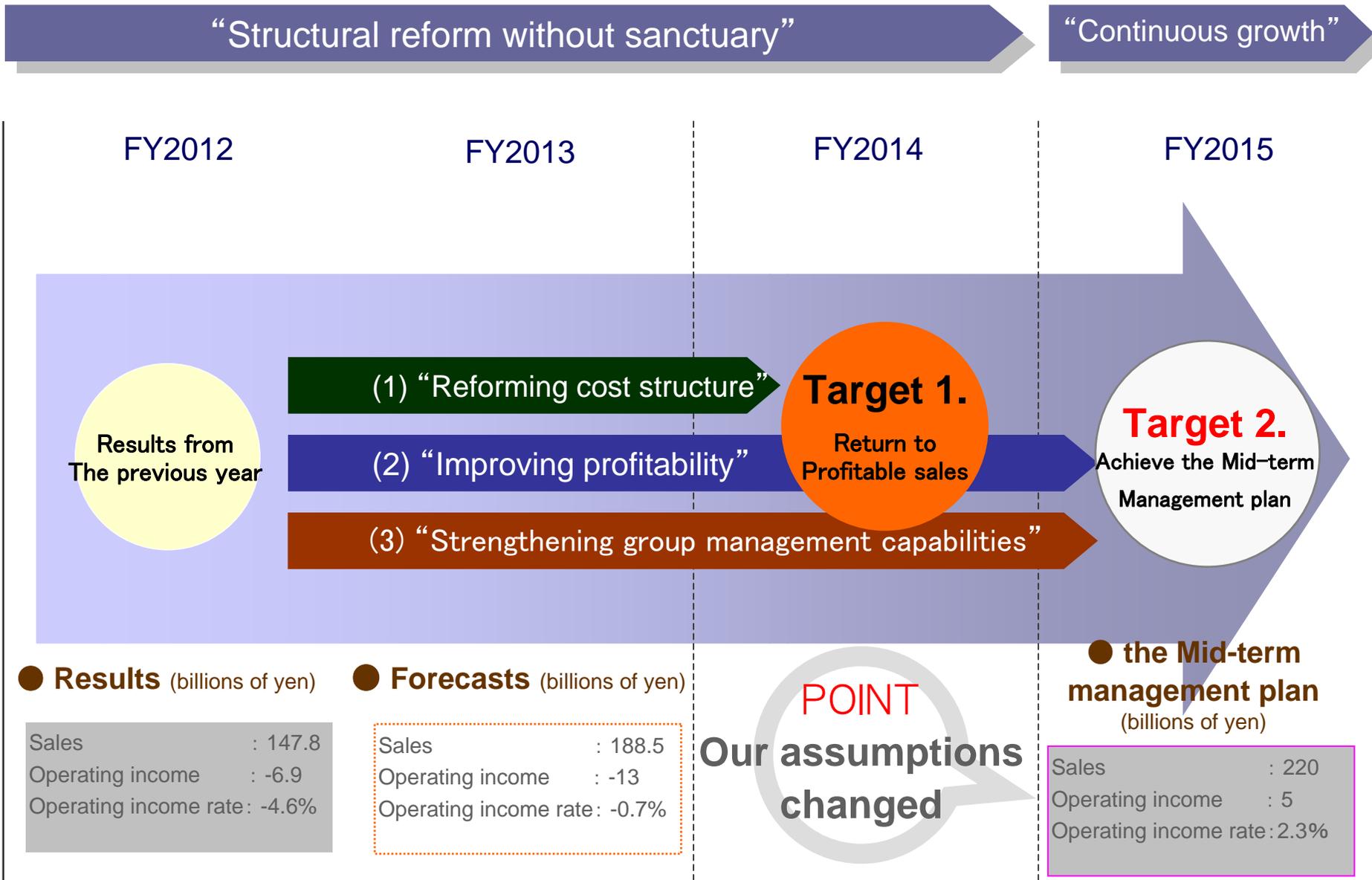
Our post-realignment organizational chart



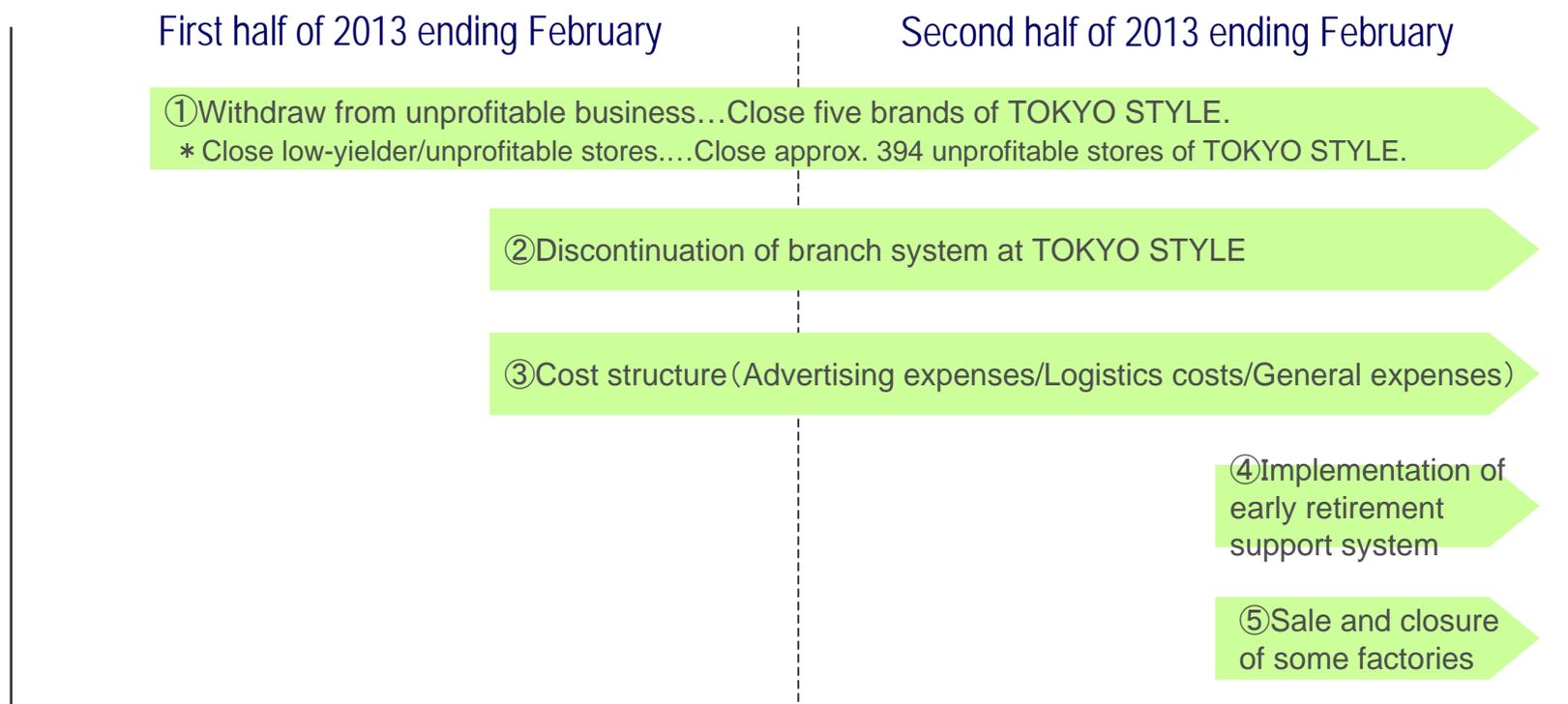
* Spun off from Tokyo Style and SANEI and realigned
 * Turned from Tokyo Style's and SANEI's subsidiaries into TSI HOLDINGS subsidiaries

III TSI Group Individual Business Strategies

14. The Group Growth Scenario



Implemented a cost structure reform for Tokyo Style



A cost reduction of 1,343 million yen achieved by implementing the structure reform program plus an additional cost reduction of 762 million yen

(Unit: million yen)

Reduced items	Reduction due to the cost structure reform		Additional cost reduction
Personal costs	-903		
Logostics costs	-40		
Advertising expenses	-400	+	762
Others	—		
Total	-1343		

Changing external environment and internal circumstances

- Declining sales caused by the implementation of cost structure reform for Tokyo Style on a non-consolidated basis
- Non-consolidation of kate spade Japan due to sale of shares in the firm
- Target value revision resulting from our overseas marketing strategy modification
- Alteration to our M&A strategy

○ Revised our target values for 2015 ending February due to changes made to our assumptions concerning sales

	Our original targets for 2015 ending February (announced in April 2012)
Net Sales	220 billion yen
Operating income	5 billion yen
Operating margin	2.3%

Our revised targets for 2015 ending February (announced in April 2013)		Change from the original targets
195 billion yen		A reduction of 25 billion yen
4.5 billion yen		A reduction of 0.5 billion yen
2.3%		+0.0pt

Kept our operating margin target unchanged despite the sales target revision

Achieve continuous growth by enhancing our earnings capability

	FY2012 Actual	FY2013		FY2014		FY2015	
		Plan	Y/Y	Target	Y/Y	Target	Y/Y
Net Sales	185.5 billion yen	180 billion yen	97.0%	195 billion yen	108.3%	210 billion yen	107.7%
Operating Income	-1.3 billion yen	1.2 billion yen	-	4.5 billion yen	375.0%	5 billion yen	111.1%
Operating income rate	-0.7%	0.7%	+1.4pt	2.3%	+1.6pt	2.4%	+0.1pt

Aim to achieve operating income of 5 billion yen and operating margin of 2.4% for FY2015

18. A picture of our earnings for the years to FY2015 (2016 ending February) TSI HOLDINGS

