

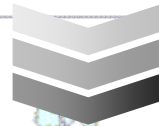


TSI HOLDINGS

Medium-Term Management Plan  
From 2017 to 2019 Ending February

2016.4.15

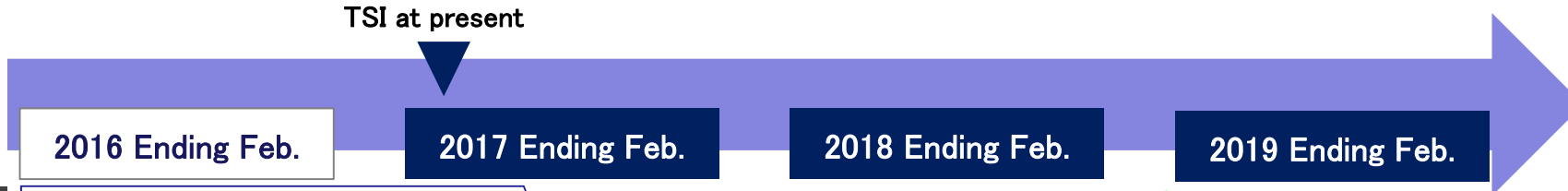
# VISION



**BECOME THE LEADING APPAREL COMPANY IN ASIA**

- Go beyond the conventional framework
- Fun
- From Japan to world, from world to Japan
- Value employees, customers and business partners

TSI at present



Enhancement of Profitability Basis

- Short-term profitability structural reform**
  - Withdrawal of unprofitable businesses and closure of brands
  - Rationalization of procurement
- Management Discipline**
  - **Complete PDCA**: Strict budget control with “Golden Rule” and ”Landing the helicopter”, Detailed quarterly review with subsidiaries
- Highly Developed Operation**
  - **Introduction of NPS**: High quality customer experience through NPS, eNPS and PDCA
  - **Implementation of BPR**: Reduction of opportunity loss and lost profits by improving operation
  - **Streamlining SCM**: warehouse consolidation, direct trading, overseas inspection/assort and optimization of the margin for trading companies
  - **Unified Core System**: introduction of the core system to all subsidiaries

Acceleration of Growth Strategy

- Strategic Investment for Growth**
  - **Digital**: Omni-channeling, investment to digital marketing and IoT of stores to utilize big data
  - **Overseas**: Cross-boarder E-commerce, partnership with Chinese apparel companies, acceleration of overseas business in South East Asia(SEA), Discussion of International M&A
  - **Affiliated Businesses Creating Synergy to the Core Apparel**: Establish a new business model from combination of fashion and beauty
  - **Brand Portfolio Management**: Evaluate each brand’s maximum growth potential and carefully select M&A to fill in blank spaces in the portfolio
  - **Reinforcement of MD and Creation**: Establishment of “Fashion Marketing Office” and actions to find next generation seeds

### Market

- Women’s apparel industry will gradually decrease 0.5% per annum(excl. E-commerce)
- The middle price range market, where TSI’s main battlefield, will decrease 2% per annum(excl. E-Commerce)
- Apparel E-Commerce market will grow 9% annually up to 2020
- Headwind of exterior environment is stronger than expected
- Widening gap of win and lose within commercial facilities, and severe competition of limited pie

### Competitor

- Major apparel companies are implementing corporate restructure
- Mid-class companies are advancing and achieving high ROE through highly developed operation and management theory
- Mid- small- brands with unique and sole concepts are maintaining steady growth, but overall industry is becoming homogeneous

### Customer

- Consumer apparel expenditure will be decreasing 1% per annum
- Consuming trend is changing due to users “self-editing ability”
- Trends are becoming shorter and smaller
- “Smartphone first”, spending of smartphone is increasing (3% growth annually over past 10 yrs.)

### Basic Principles

- **Reinforce Business infrastructure of Existing Businesses:** concentration of investment to existing businesses and continue reinforcement its business infrastructure
- **Strategic Investment for Growth:** Acceleration of investment to E-Commerce, overseas and M&A, actions to find next generation seeds
- Build businesses and brand portfolio which **correspond to exterior environmental changes**
- Determination based on fact(numerical) and analysis, and establishment of **reasonable operation basis**

CAGR prospect of middle-price range ladies apparel market up to 2018



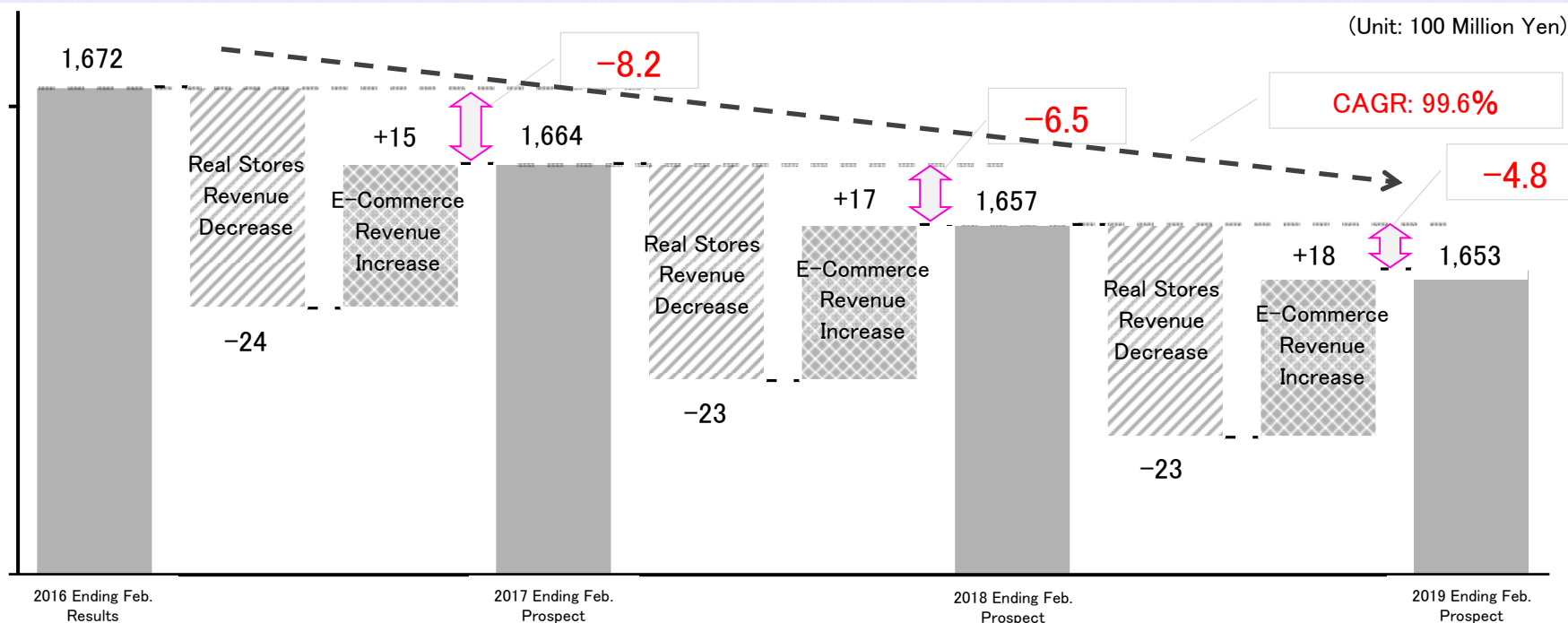
Real Stores

98%

E-Commerce

108%

Given the market growth prospect and apply it to TSI's sales channels,  
**TSI's CAGR is 99.6%**



2017 Ending Feb. budget for continuing brands are 104.8% Y/Y  
 mainly through growth of E-commerce business and opening of new stores

### Basic Principles

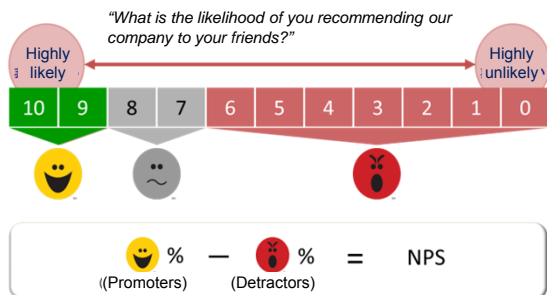
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Direction of Each Measures	
Customer/ Sales	Introduction of customer NPS, eNPS and PDCA
Price	Price strategy based on scientific analysis <small>(Optimization of price setting, proper sale rate, discount rate and items per customer)</small>
Product	Reinforcement of MD and creation, Refine products' appealing points and limit # of styles
Place	Centralization of contacts with major facility developers
Promotion	Accelerate investment to digital marketing
Brand Portfolio	Evaluation of the maximum growth potential of brands, actions to find next generation seeds
EC/ Digital	Omni-channeling, investment to digital marketing and IoT of stores to utilize big data
Overseas/ M&A	M&A and partnership based on trustworthy value evaluation <small>(Domestic apparel, natural cosmetics, M&amp;A of skincare brands, partnership with Chinese apparel etc.)</small>
Cost	Purchasing at market's best price
SCM	Rationalization of logistics and optimization of cost <small>(Concentration of warehouses, direct trading, optimization of margin for trading companies, overseas inspections/assortment of product)</small>
Process	Initiation of BPR(Business Process Re-engineering)
Discipline	Strict decision-making standard to withdraw low profitable businesses and implementation of management discipline

## Introduction and Implementation of NPS to all brands are expanding

### Customer NPS

- Measure customers' loyalty toward the brands (Already studied with 9,611 customers of 260 stores of all brands in SANEI bd, 3,954 customers of HUMAN WOMAN in SANEI-INTERNATIONAL is being studied)
- Listen to customers' real voices and clarify the improvement actions in terms of customer service and products (start/stop/continue) (already conducted workshop at 151 stores of all brands in SANEI bd, 4 HUMAN WOMAN stores in SANEI-INTERNATIONAL)
- Improve customers' lifetime values by increasing promoters and reducing detractors

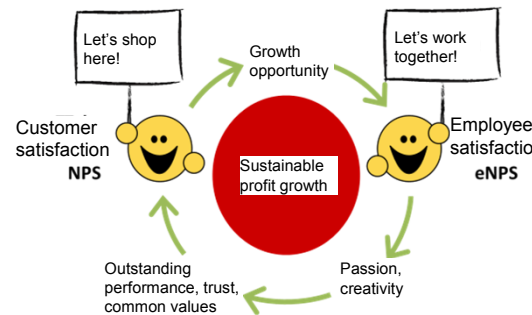


### eNPS

- Measure the loyalty of store managers/staff toward working for the brand (Already studied with 1,348 employees of 251 stores of all brands in SANEI bd, 398 employees of 102 stores in ANGLOBAL, 257 employees of 67 HUMAN WOMAN stores in SANE-INTERNATIONAL)
- Formulation of specific proposals to improve training, incentives and motivation
- Continuously expand profits through the improvement of both customer NPS and eNPS

### PDCA

- ① Store performance of day/time of day  
② Best practices at stores  
③ Enhance the "visualization" of actions and leverage store performance in organizational manner (Already introduced to 280 stores of all brands in SANEI bd, 14 HUMAN WOMAN stores in SANEI-INTERNATIONAL)
- Sophisticate the quality and quantity of communication between store managers and Supervisors, to swiftly improve store performance (Increased the number of Supervisors by 1.5x in SANEI bd)

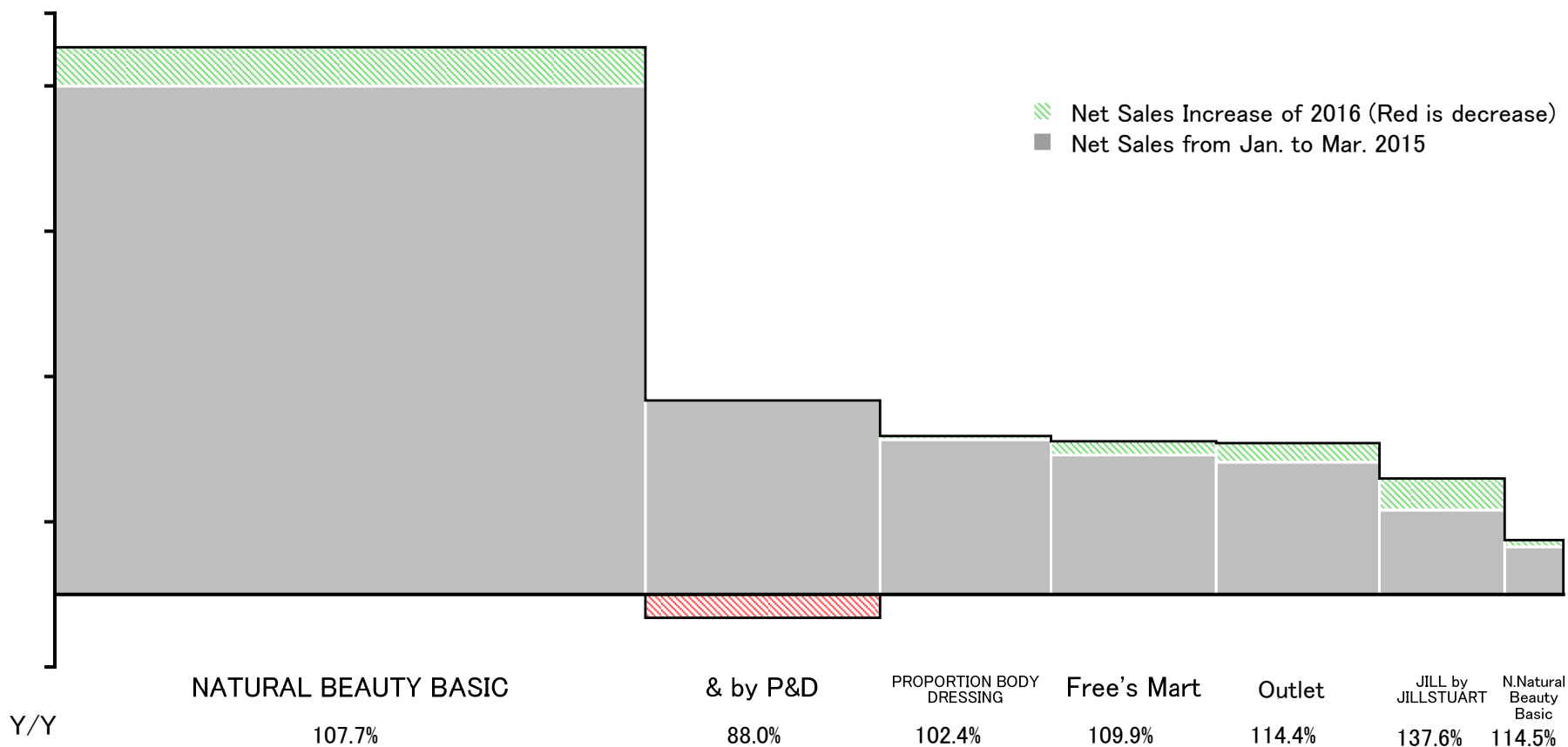


- Targets for the number of customers/customer unit price by time of day and by individual
- Analysis of positive factors/negative factors of each day
- Plan to gain back the unachieved amount against the budget
- Motivation improvement through rallies
- Immediate deployment of best practices
  - Real-time improvement of VMD
  - "Best Sales Talk"

Store to which the project are introduced have improved the performance by 3 p.p. to 8 p.p. in terms of the budget achievement rate

Revenue of SANEI bd, a subsidiary fully implementing NPS, has been improving healthily

Comparison of net sales from Jan. to Mar. 2016 Y/Y

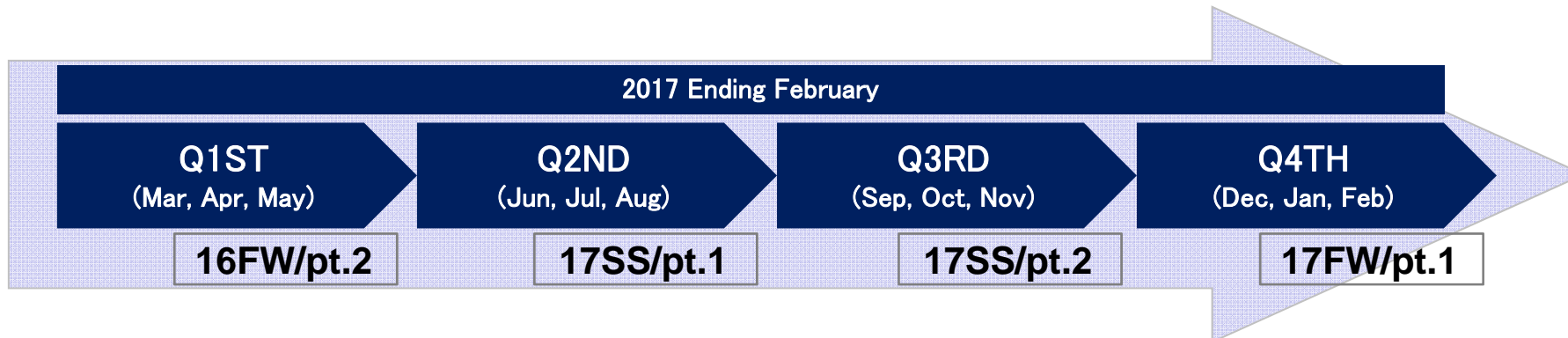


\*Brands are lined up by amount of net sales

\*Y/Y of brands are calculated by comparison with previous year's all-store sales(incl. E-commerce)



Start the internal process to analyze social trends, translate them into fashion trends, and reflect them on actual manufacturing



**1. Current Social Trend**

- Domestic and International: Politics/Economics/Environment/Topics
- What our customers are thinking and feeling in such society?
- Transition of Japan’s real fashion and its present
- What is the “feeling of time” of 2016FW?

**3. Seeds of 2017SS**

- Social trend topics, color and material trends, hints and moods

**2. Organize Fashion Trend of 2016FW**

- Image visuals to demonstrate “feeling of time”, (4 fashion moods and factors)
- Color and material trends
- Bestselling analysis
- Characteristics and points for fresh items, materials, patterns, details, silhouettes and colors
- Relationship between 4 factors of “feeling of time” and 3 scenes (Collection, International and domestic street style)

**FORMULA: “Customers’ feeling” x “General Trends” = Desired Manufacturing of Each Brand**

“Smartphone First” + “Omni-Channel” + “Personalization” + “Globalization” + “IoT”

Omni-channel Strategy through Smartphone App

**All brands will have omni-channel sites launched by end of H1.**  
**Branded smartphone apps equipped with loyalty points management function by end of Feb 2017 (H2).**



Entering the 2<sup>nd</sup> phase of our omni-channel strategy: Partnering with leading smartphone apps platform providers to enhance customer engagement through smartphone apps equipped with loyalty points management capabilities

One to One Personalization

**Connecting User Generated Content on Social Networks to e-Commerce**



We will be the first in Japan to integrate Olapic’s User Generated Content management platform for e-commerce

**Marketing Automation**



Automated traffic generation/funneling to branded apps will enable us to acquire users based on their social media activities profile.

Globalization = Cross-Border E-Commerce

**Launching of phased approach to cross-border e-commerce with Direct to Consumer sites and online stores on 3<sup>rd</sup> party platforms.**



Last year, we became the first Japanese users of Demandware, who is the largest e-commerce platform in the US and Europe. This year, we will launch proprietary and 3<sup>rd</sup> party global e-commerce sites.

Utilizing Big Data through In-Store IoT

**Trial installation of RetailNext, the American market leader in retail IoT**



Commencing testing of automated capturing of foot traffic, visitors, customer profiles, conversion rates and other data in physical retail stores through retail IoT to utilize big data in brick and mortar stores.

M&A and oversea business development is moving forward strongly, with full utilization of the network from the business partner

**Business Partner**



The state-on bank known as a leader of successfully bring up domestic companies to the global market and industry consolidation in Japan. TSI formed the strategic alliance: capital tie-up and business partnership in July 2015. With DBJ's strong support TSI's M&A and overseas development is underway.

**Core Apparel**



**Affiliated Businesses**

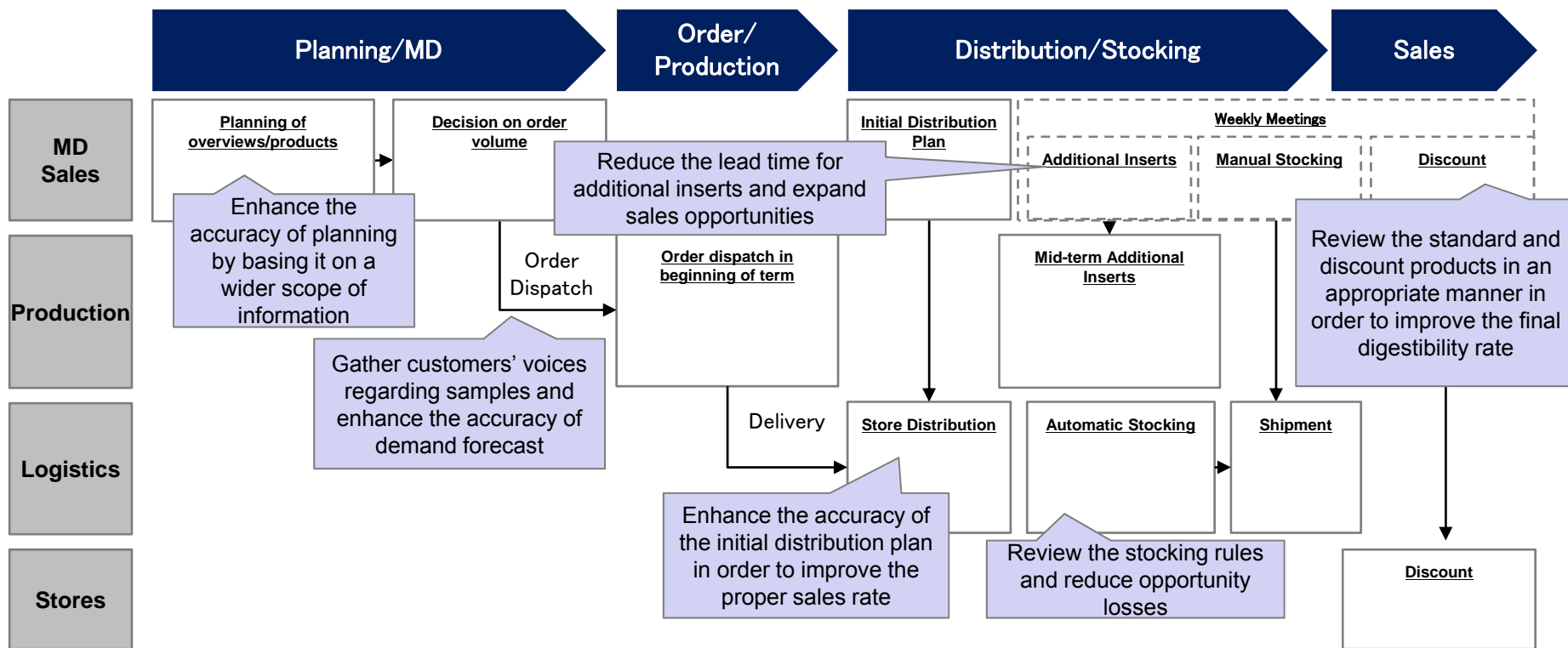
- M&A of domestic apparel
- Complement the blank area of TSI's brands portfolio e.g. M&A of "d'un à dix" and "Chez unaun"

- China**
- Discussion of JV with a major Chinese apparel company, envision the start for business in 2017SS -> Full-scale entry into accessible luxury and middle income market in China
- SEA**
- Planning M&A of countries' major apparel companies and expansion of our brands through capital tie-up between TSI and companies

- Discussion of M&A of a natural cosmetics company
- Bring stable businesses that are not easily affected by climate and economic factors into TSI's brand portfolio, and accelerate the growth through full utilization of store development capacity
- Aim for not only the domestic market but also expanding to Asian markets

- Partnership with major companies from domestic beauty industry
- Launching a new omni-channeling business with partners to provide shopping experiences in hair salons.

Realize the minimization of sales opportunity losses and lost profits through scientific analysis



**Initiation of Pilot Project**

- Distinct standard to determine good and bad sales in early stages, and enhance the revising accuracy of sales plan.
- Optimization of stock flexibility for dispatch between stores
- Enhancement of E-commerce stocks to become less reliance on markdown and highly developed sellout method

	2016 Ending Feb. Results	2017 Ending Feb. Plan
Withdrawal of unprofitable businesses and brands	Closure of 12 brands including liquidation of 2 subsidiaries and transfer of 1 brand -> Early retirement 528 employees, closure of 292 stores and replaced 64 with continuing brands	Stricter standard of withdrawal from “unprofitable” to “low profitable” and monitoring progress quarterly, enabling subsidiaries to submit turnaround plans for discussion in timely manner
Rationalization of Procurement	Thrash out all the cuttable costs and clarify the ways of reducing -> Achieving 0.8bn yen reduction mainly from magazine advertisement and freebies	Expecting to reduce 1.7bn yen cost reduction from centralization of purchasing, establishment of purchasing rules and send out strict budget guideline
Complete PDCA	Understanding conditions of subsidiaries thoroughly by quarterly review -> discuss countermeasures with subsidiaries, implement cost control correspond to sales progress	Formulate budget through strict guideline -> manage budget progress through quarterly review
Introduction of NPS	Introduced to SANEI bd -> 6 out of 7 divisions are improving sales from Jan. to Feb. 2016	Expand to other brands and develop PDCA cycle depending on circumstances of subsidiaries
Implementation of BPR	—	Demand forecast, enhance accuracy of production/distribution and development of discounting to obviate and minimize sales opportunity losses and profit losses
Streamlining SCM	Reduced 0.49 bn yen SCM cost through increment of direct trading ratio and optimization of import trading companies	Reduce 0.85bn yen through increasing direct trading ratio, optimization of import trading companies and concentration of warehouses
Unified Core System to All Subsidiaries	Completed renewal of production, receipts and payments, distribution, stores, EC, logistics, financing systems of certain subsidiaries with the new operating core system from Mar. 2015	Expansion of the system to other subsidiaries -> Plan to introduce the system to d’un à dix and Chez unaun, new subsidiaries joined the group in Mar. 2016 through M&A

	2016 Ending Feb. Results	2017 Ending Feb. Plan
Digital	Drive forward business infrastructure to achieve E-Commerce ratio of 20% O2O sites 25 (YY +14), strengthen relationship with 3 <sup>rd</sup> party E-commerce such as ZOZOTOWN	Release of smartphone apps of brands with point managing function, plan to broaden cross-border EC/ Trial opening of big data utilization through IoT of Stores
Overseas	Contacts with several major apparel companies in Chinese and SEA. Evaluate suitable brands, planning for expansion scheme from M&A to establishment of JV	Aiming to establish JV with Chinese major company to start business in the country from 2017SS. For SEA, planning to expand brand sales through M&A to capital tie-up
Expansion to Affiliated Businesses Creating Synergy to the Core Apparel	—	Negotiation of M&A that is not easily affected by climate and have strong synergy effect to TSI
Brand Portfolio Management	Decision of M&A of d'un à dix and Chez unaun to complement a blank space of TSI's brand portfolio with the taste of "French Authentic"	Evaluate each brand's appropriate size and maximum growth potential, and discussion of M&A to fill in further blank spaces of the portfolio
Reinforcement of MD and Creation	—	Establishment of "Fashion Marketing Office" -> Initiation of the internal process to analyze social trends, translate into fashion trends, and reflect on actual manufacturing

(Unit: 100 Million Yen)

	2016 Ending Feb. Results	2017 Ending Feb. Target	2018 Ending Feb. Target	2019 Ending Feb. Target
Net Sales	1,672	1,660	1,700	1,800
Operating Profit	11	30	60	90
Operating Profit Ratio	0.6%	1.8%	3.5%	5.0%
ROE	1.1%	2.2%	5.0%	6.5%

(Unit: 100 Million Yen)

## Net Sales

Expansion of E-Commerce	Implement of M&A		Impact of Withdraw Businesses (2016 Ending Feb.)	Existing Businesses		Total
	Domestic	Overseas		Existing stores decrease + New Open Stores	Closure of Low Profitability Businesses and Structural Reform	
+100	+50	+50 ~ +100	-80	+100	-100 ~ -150	+70 ~ +170

## Operating Profit

Expansion of E-commerce	Implement of M&A	Rationalization of SCM Cost	Improvement of Gross Profit	Withdraw of Low Profitability Businesses (Before 2016 Ending Feb.)	Total
+10	+5 ~ +10	+10	+20 ~ +30	+25	+70 ~ +85