



TSI HOLDINGS

TSI HOLDINGS CO., LTD.

Q2 Financial Results Briefing for the Fiscal Year Ending February 2024

October 16, 2023

Event Summary

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[Participants]	45	
[Number of Speakers]	7	
	Tsuyoshi Shimoji	President and CEO
	Masanori Maekawa	Director, Platform Headquarters
	Mitsuru Naito	Director, Corporate Headquarters
	Genya Oshiki	Director, General Manager of Business Headquarters
	Hiroyuki Watanabe	Operating Officer, Deputy General Manager of Platform Division
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Question & Answer

Moderator [M]: Now, I would like to welcome you all to the question-and-answer session.

Motohashi [Q]: My name is Motohashi from WWD. You mentioned earlier that you are trying to improve the golf brand by changing the way the sales floor is edited. Can you tell us specifically what the issues are and how you plan to change them?

Moderator [M]: Thank you very much. It's about editing the golf sales area and current issues and future changes.

Shimoji [A]: Thank you for your question.

First, we believe that the market for golf brands has become saturated. It has peaked considerably. In this context, we have created a position with our brand, PEARLY GATES at the forefront. Not only PEARLY GATES but including MASTER BUNNY EDITION and PGG plus Jack Bunny!!, we are proceeding with branding efforts to develop a collective group of brands.

We are developing "the HOUSE", which is a collection of golf brands, in GINZA SIX and other areas. We would like to create a sales floor in conjunction with the HOUSE in all major cities. We would like to include a playground there, a space where people can try out games and other such things. We are operating the store as a test case to see if we can do better elsewhere, and from there we hope to create the next store, as well as to spread store information to the local community.

Motohashi [M]: Thank you very much.

Moderator [M]: We have two questions from Mr. Nozawa of Daiwa Securities.

Nozawa [Q]: The first is about strengthening e-commerce in H2. The question is when will the development of a company-wide e-commerce policy, and this one, begin in full swing, and will it involve site renewal and so on?

The second question is about the reactionary sales performance of HUF due to inflation in the US. Its business has been struggling in H1. What is your outlook for H2?

Moderator [M]: First Mr. Watanabe will talk about the e-commerce enhancement part, company-wide cross-sectional measures as well as site renewal.

Watanabe [A]: Thank you for your question.

The company-wide cross-functional measures come in various sizes, but the smallest ones have already started in October, and the actual campaign, which is a cross-functional measure in its own right and on a large scale, will be launched in November or later.

With regard to the site renewal, we are considering how to create an e-commerce site while monitoring the status of the campaign. So, I would like to ask for a little more time on this. We will not mention individual e-commerce site renewals now for brands, but we do have some planned for this fiscal year.

Moderator [M]: Thank you. I would like to move on to the second question. It is about the future situation of HUF brand in the United States.

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Shimoji [A]: Thank you for your question.

First, the US is experiencing rising inflation. In that context, then, is that true across the board, or is it more related to a decline in consumer spending among higher profit groups? That's the whole point. Not everything is bad as a social situation.

However, during the coronavirus pandemic, skateboarding and street play have grown as a place to play without crowds. Later, when COVID-19 subdued and people were free to explore many other places to play after all, many customers chose to travel and play in commercial amusement facilities and such rather than play in the neighborhood.

I think there is no doubt that skateboarding and other such activities are becoming less popular for teenagers and young adults. This is true not only for our brand but for all brands out there that have led the street fashion in recent years.

Going forward, for HUF, the brand originated by strengthening its fashion design aspect and fashion-oriented graphic designs and leveraged to pull off various collaborations with visual entertainment and comic book tie-ups. This is by far the most distinctive characteristic of HUF.

In this sense, the brand has established a firm foothold as a graphic-based culture brand. We would like to further strengthen such information dissemination methods and provide interesting fashion.

Nozawa [M]: Thank you very much.

Moderator [M]: Next, we have a question from Mr. Suzuki.

Suzuki [Q]: You have left the full-year results unchanged, but which of the four measures in H2 do you expect to contribute the most?

Shimoji [A]: Thank you for your question.

First, among our four measures, the UENO SHOKAI business, which is a new select business, is doing very well, although inbound sales have also had an impact. I believe that this is a very strong performance in that interesting products are being gathered through purchasing that represents a generation, and customers as influencers are engaged in their social media activities there as well. We would also like to emphasize such points, including events. This is the first point.

In terms of improvement measures, in the short term, we would like to control SG&A expenses, which is the fourth item. As for SG&A expenses, we have basically been using SG&A expenses to implement various measures since the end of COVID-19. The social movement of people has become quite active, and we would like to make improvements in these areas.

Suzuki [Q]: Thank you very much.

Conversely, operating profit fell far short of the target in H1. You mentioned various reasons for this, such as the rise in raw material prices due to the weak Japanese yen and the increase in discounting due to the rise in remaining inventories. What was the biggest discrepancy from the forecast at the beginning of the fiscal year that resulted in the significant profit underachievement in H1 of the fiscal year? As the President, how do you analyze this?

Shimoji [A]: We believe that there was an oversupply of products in the storefront, which also shows how weak the storefront sales were. There are both meteorological and product policy issues. I don't want to make

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excuses, but one thing is that the weather conditions were not ideal, and I think that we were unable to introduce products in a well-balanced manner.

In this sense, we would like to focus our efforts on this area as a new product measure.

Suzuki [M]: Thank you very much. We are looking forward to H2 and ask for one thing.

Moderator [M]: Thank you very much. Continuing on, we have received three questions from Mr. Sumi.

Sumi [Q]: The first question is about profit levels. The budget for H1 is JPY500 million behind. I would like to ask about measures to recover the loss in H2. I also would like to ask whether investments in advertising and other areas will have an immediate impact on profits. Finally, I would like to ask about the future growth of the e-commerce business.

Shimoji [A]: Thank you for your question.

In order to regain the profit level, as I mentioned earlier, I am wondering if we can still reduce SG&A expenses and utilize human resources in a more balanced manner in the future. We would like to utilize human resources on the sales floor, e-commerce, and other such sites, and promote the right people in the right places. We would like to focus on the theme of building up our strength through this process.

Naito [A]: From the perspective of immediate profits, as I just mentioned, I think that advertising effects can be expected as long as they are implemented. Especially with regard to e-commerce, as Mr. Watanabe mentioned earlier, we believe it will have a more immediate effect.

The other thing is the increase in sales through various measures, which also ties in with your earlier question. The reason why we struggled in H1 was that sales did not grow as expected, especially in e-commerce, and we regret that we were not able to improve the gross profit margin as much as we would have liked. So, the idea is to strengthen e-commerce and at the same time increase overall sales.

In terms of short-term measures, we believe that we can catch up with the behind-the-scenes part of H1 by tightly controlling SG&A expenses, since the second half of our business model has a very large weight H2.

Sumi [Q]: Second question. Regarding inventory levels, there is an increase of JPY6 billion compared to the same period last year, but what is this and how might it lead to pressure for price reductions in the future?

Naito [A]: As you point out, the inventory has increased enormously. In terms of the contents of this inventory, inventories are increasing due to the fact that we were not able to move it to increase in merchandise that we introduced for the spring/summer of 2023 and some of the so-called standard items that will be sold for the full year in the men's department as expected. The products themselves, as I mentioned, are either standard or recent new products, so we do not believe that this will lead to an immediate price reduction. We would like to sell them carefully as proprietary products, of course.

However, since we have spring and summer items, it is difficult to say whether we will be able to fully digest our inventory during H2 of this fiscal year. Ultimately, we will reduce inventories properly for next year's spring/summer season, and in the process, we will control price reductions properly and will not sell at drastically reduced prices.

Sumi [Q]: Third question. The 8% ROE target is a significant deviation from the current level. Specific measures will be disclosed in April of next year's financial results. What are the current discussions and recognition of issues by the Board of Directors, and so on?

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Naito [A]: As you pointed out, the level of ROE has deviated significantly from the current situation. The so-called profit rate is particularly problematic. Profit levels are not growing as expected, and we believe that various measures need to be taken to address this issue.

The first is, of course, to properly increase the top line, including sales, and the second is to improve the gross profit margin, which is still insufficient compared to other companies in the industry, as seen in H1 of this fiscal year. The biggest challenge for our company is the reform of the SG&A structure. We are currently discussing these three pillars in various ways at the Board of Directors meetings and other meetings.

At this time, we have yet to announce the numerical part of the plan, including the specific metering plan. However, the TIP25 plan that we are currently discussing will be completed in the next fiscal year, and we have not been able to show an ROE of up to 8% in the final year of the TIP25 plan, so the Board of Directors is currently discussing this issue. We are working on a concrete metrology plan for next April, and then we are taking action to include this plan in our policies and announcements.

Shimoji [A]: Over the past two years, we have undergone a major organizational restructuring. We believe that we can revitalize the lineup as we reorganize brands and add new brands, and the changes will surely affect what is included in these brands.

First, we would like to focus on increasing our ability to communicate more than just numbers, especially in important areas, such as purchasing and such sales, and product enhancement. We believe that this will enhance the significance of TSI's presence and position in the market.

Sumi [M]: Thank you. It was a very clear answer.

Moderator [M]: Mr. Ueda, please proceed with your question.

Ueda [Q]: Thank you.

May I ask for any background as to why it was decided to take a little more time in terms of timing, to the point of April 2024 instead of Q2?

Naito [A]: It is not because of anything in particular, and I am very sorry for this, but we have not yet been able to formulate a plan with a high degree of accuracy to announce it at this point in time. Of course, we understand the urge to do this as soon as possible, but we would like to present it in a proper form, possibly with outside support, so we are planning to announce it by April of next year.

Shimoji [A]: We also have several plans for new business initiatives and various new measures that we are not yet ready to announce at this time. With that in mind, we are announcing that we would like to make an announcement in April, not at this time.

Ueda [M]: I understand. Thank you.

Shimoji [M]: Thank you very much.

Moderator [M]: Next, we have a question from Mr. Kanzaki.

Kanzaki [Q]: Regarding brand-based e-commerce consolidation, are you moving toward developing your own shopping mall-like e-commerce site? If so, when will it launch and what brands will consolidate? We have also received questions about the changing role of MIX.Tokyo.

Watanabe [A]: Thank you for your question.

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At this point, I can tell you one thing; we are not going to create a shopping mall for every single brand of TSI Group. In our current medium-term management plan, we are focusing on growth strategies for each domain. At present, we are planning to develop an e-commerce site beyond the framework of one of these domains or individual brands.

Kanzaki [M]: I understand. Thank you.

Moderator [M]: Thank you very much.

At this time, I would like to conclude the Q&A session. This concludes the financial results briefing for H1. Thank you very much.

[END]

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