TSI HOLDINGS CO., LTD.

Q1 Financial Results Briefing for the Fiscal Year Ending February 2025

July 16, 2024

Event Summary

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Tsuyoshi Shimoji	Chief Executive Officer
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

Question & Answer

Moderator [M]: Now, I would like to welcome you to our Question-and-Answer session.

We have received three questions from the Tokai Tokyo Intelligence Laboratory (Tokai Tokyo).

Tokai Tokyo [Q]: First question. Inventories increased by about JPY 1.6 billion year over year. How are inventory optimization efforts progressing compared to the Company's plan?

Shimoji [A]: Thank you for your question. Inventory. We are progressing at about the same level as planned. During the pandemic, we experienced a significant halt in procurement. However, we saw a substantial surge in demand for golf products in 2020 and 2021. As the pandemic subsided, this demand balance slightly shifted, leading to an inventory buildup. Given that these are popular brands, we believe we can steadily reduce inventory through targeted events and sales opportunities. We are confident in our ability to gradually stabilize and decrease this inventory effectively.

Increasing the rate of items sold at regular prices is a significant priority. This season's procurement has been more focused and streamlined according to plan. While inventory levels have increased compared to the previous year, we expect this situation to stabilize gradually.

Tokai Tokyo [Q]: Okay, second question. Now, my second question. Regarding the reduction of SG&A expenses, what is the progress toward the full-year plan of 1.44 billion yen, and what part of the reduction did you make up for operating profit through cost reductions?

Naito [A]: I will take this question. As for reducing SG&A expenses, we scrutinized all items across the board in great detail. The significant impact in terms of amount is advertising and promotional expenses for brands with slightly weaker profitability, which was our review's target.

This does not mean we conducted a uniformly detailed review of all brands. While we reviewed cost-effectiveness quite strictly, we cut back on sales promotion expenses. We reduced these costs, for example, by consolidating the shipments between stores. By meticulously controlling SG&A expenses in all areas, we should be able to reduce SG&A expenses as planned.

Although overall SG&A expenses increased compared to the previous year, this increase was due to personnel expenses and employee compensation improvements. Some factors, such as overseas expenses, have also increased slightly due to the depreciation of the yen. However, as previously stated, we successfully reduced overall SG&A expenses according to our meticulously planned controls.

Tokai Tokyo [Q]: I'm continuing to the third question. We're curious whether the golf brand's current challenges stem from internal company factors or external environmental influences.

Shimoji [A]: Regarding the golf brand, in comparison to the overall golf apparel industry, as you know, there were many new entrants during the pandemic around 2019 and 2020. There are still a lot of struggles overall. For Pearly Gates, while we are down year-over-year due to the rebound from the demands during COVID-19, we are up in revenue compared with 2019, the year before the pandemic. In that sense, I think the role of our brands is becoming more apparent as we each aim for more distinctive branding. Therefore, we need to differentiate ourselves more than ever with our product branding.

I don't think it means that golf's popularity has declined across the industry; there were many new entrants during the pandemic, and many people in a wide range of age groups took up the game. However, some have stopped and left, so such a supply-demand balance shift created a tidal wave of fluctuation that has moved significantly for about three years. Nevertheless, we view the current status of the golf brand as not detrimental, and we hope you appreciate this perspective.

Tokai Tokyo [M]: Thank you for your answers.

Moderator [M]: Thank you very much. We received questions from Daiwa Securities (Daiwa).

Daiwa [Q]: My first question is regarding structural reforms. The Company's plan is ahead of schedule in terms of expenses. The impact is likely to hit H2 mostly. What kind of effects do you expect each quarter after Q2 of this fiscal year?

Naito [A]: I will take this question. The budget for H1 is expected to be minus JPY 900 million.

As of Q1, we are making progress at a pace slightly faster than planned. Compared to last year, H1 is about JPY 1.4 billion less than last year. We plan to achieve a positive result for the full year compared to the previous year. In this sense, we expect a considerable improvement in H2 of the fiscal year, and I can list two major factors.

First, we are working on structural reforms and several projects. The one that is expected to be partially effective in H2 is the optimization of supply and demand management, which is also known as pricing. When reviewing the 2024 FW products, we will start with those with shorter product cycles due to the difficulty of reviewing all prices at once.

Another crucial part of the plan is cost reduction. Of course, for Q1, the reduction was more than planned. Even so, some projects and expenses that were running when the project started in March were unable to halt immediately.

We plan to intensify our efforts further, particularly in the area of logistics costs. We are changing our approach in the first half of the year, and we expect to see significant results in the second half. Key areas of focus for these initiatives in the second half will be pricing strategies and the reduction of selling, general, and administrative expenses. These will be the major points of our reforms moving forward.

Daiwa [Q]: Second question. With regard to inventory, what was the inventory level as of Q1, and is it at a level that will allow you to manage while reducing inventory from Q2 onward?

Oshiki [A]: Here is the breakdown of inventory trends. The products of the military-fashion brand AVIREX consist of core items, which we consider to be long-term sales merchandise. We also have a golf brand, PEARLY GATES, with a slightly heavier inventory of Sprint/Summer items from previous years.

Regarding spring and summer merchandise, we expect to reduce inventory to an acceptable level during this term through restrained purchasing and targeted product releases. As for fall and winter merchandise, inventory levels have been exceeding past year levels, but we plan to normalize these throughout the year. We are implementing exit strategies such as accelerating sales for certain products and holding pop-up events in outlets. We anticipate achieving optimal inventory levels within this fiscal year.

Shimoji [A]: We must control the procurement volume at an appropriate level, and in this reform, we need to approach overall procurement activity to ensure that it makes sense across the board. If inventory exceeds the appropriate level, the company must work together to sell off the excess. We began to successfully deploy a strategy of selling off inventory while promoting sale events, like clearance, for example. We will continue to optimize inventory in this manner.

Daiwa [M]: Thank you for the answer. That's all from me.

Moderator [M]: We have received a question from Tsuhan Shimbunsya (Tsuhan Shimbun).

Tsuhan Shimbun [Q]: Regarding e-commerce, is it correct to say that you will be replacing the system of MIX.Tokyo? Please explain the current role of MIX.Tokyo and the reason behind the decision to integrate the MIX.Tokyo site into the main site.

Kishi [A]: Thank you for your question. I am Kishi from the Platform Headquarters. In regard to the MIX.Tokyo, yes, we plan to replace the system. Currently, each brand utilizes its resources and O2O (Online-to-Offline) site to attract customers and develop strategies on their respective e-commerce platforms. MIX.Tokyo's role is to host cross-brand events and content to engage customers.

Moving forward, as outlined in our medium-term plan, our global strategy and OMO initiatives strongly align with the concept of integrating the EC site of TSI's various brands. Thus, we have decided to continue using the name MIX.Tokyo as the unified EC site.

Tsuhan Shimbun [M]: Thank you.

Moderator [M]: We will now conclude the presentation of financial results for Q1 of the fiscal year ending February 28, 2025. Thank you for your attention today.

Shimoji [M]: Thank you very much.

[END]

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Document Notes

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