TSI HOLDINGS CO., LTD.

Q3 Financial Results Briefing for the Fiscal Year Ending February 2025

January 15, 2025

Event Summary

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[Participants]	48	
[Number of Speakers]	3	
	Tsuyoshi Shimoji	President and CEO
	Mitsuru Naito	Executive General Manager, Director of Corporate Headquarters
	Genya Oshiki	Executive General Manager, Director of Business Headquarters

Presentation

Moderator: Good morning. We will now begin the financial briefing for the third quarter of the fiscal year ending February 28, 2025.

Shimoji: Good morning. Thank you very much for your continued support. I will now discuss the financial results for Q3 of FY2025. I would appreciate your attention.

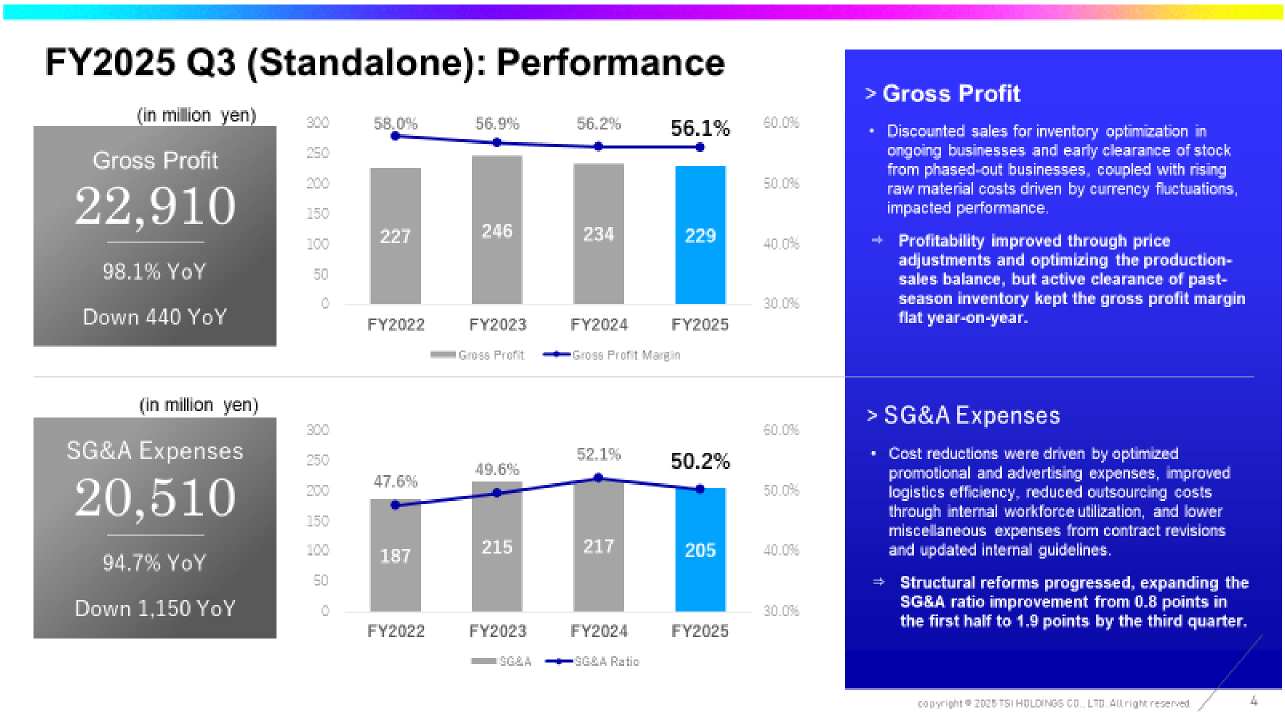
Here are the highlights for Q3 of the fiscal year ending February 2025. Various structural reform initiatives outlined in the Medium-Term Business Plan are progressing smoothly. Profitability improved, and although sales struggled in the middle of September and October, operating income exceeded the previous year's level.

First, net sales were JPY40.82 billion, 98.2% year-on-year, operating income was JPY2.39 billion, 141.9% year-on-year, and net income was JPY0.95 billion, 52.3% year-on-year.

Although the domestic business was affected by weather conditions and landed at the same sales level as the previous year, the underperformance of the overseas business pushed down the overall sales. As a result, consolidated net sales were down JPY750 million from the previous year.

Next is operating income. Profitability deteriorated due to sluggish sales growth and discounting to optimize inventories quickly. In this context, we have been implementing structural reforms, and the improvement in earnings has been more evident than in H1 of the fiscal year. As a result, operating income was JPY700 million higher than the previous year.

The net income. Impairment losses and restructuring charges resulted in a JPY860 million decrease from the previous year.



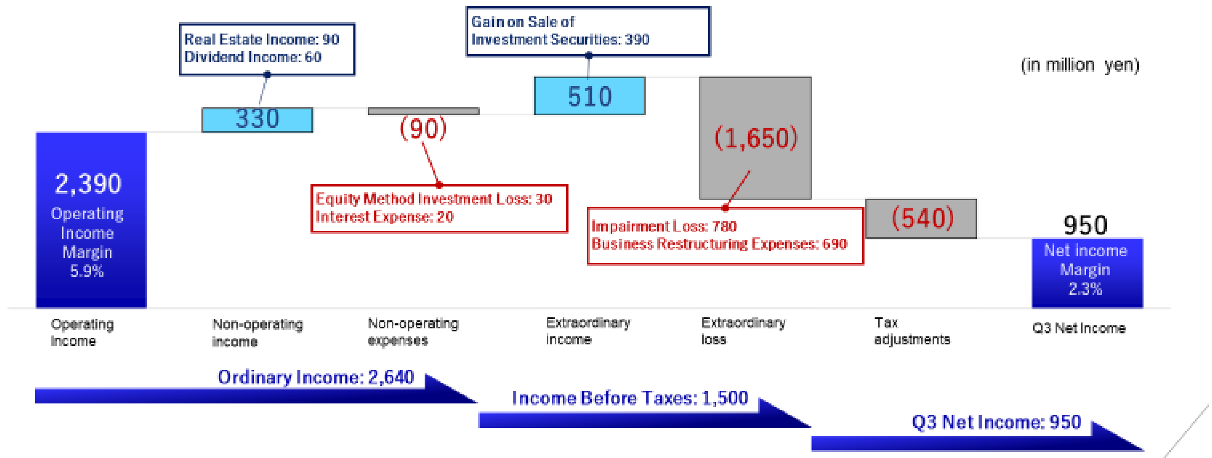
Consolidated financial results. Gross profit was JPY22.91 billion, 98.1% year-on-year, and SG&A expenses were JPY20.51 billion, 94.7% year-on-year.

First, I would like to discuss gross profit. Profitability improved through price adjustments and optimizing the production-sales balance. We also actively worked on the clearance of past-season inventory. In addition, due to the soaring cost of raw materials caused by the worsening foreign exchange rate and other such deteriorating factors, sales remained almost flat from the previous year.

SG&A expenses. We have reduced costs through structural reforms, including cuts in promotional advertising expenses, enhanced logistics efficiency, a decrease in outsourcing costs through better utilization of internal personnel, and a reduction in various expenses by reviewing contract terms and internal guidelines. As a result, the SG&A ratio improved by 0.8 percentage points in H1 of the fiscal year from the previous fiscal year. In Q3, it expanded significantly to 1.9 percentage points.

FY2025 Q3: Factors Affecting Net Income

Including 240 million yen in non-operating income from real estate and dividends, ordinary income reached 2,640 million yen (129.8% YoY). However, special losses of 1,140 million yen, primarily from impairment losses due to business withdrawals and restructuring costs from headcount reductions at headquarters, brought net income to 950 million yen (52.3% YoY).



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Next, I would like to look at factors affecting net income. Q3 net income was JPY950 million, and the net income margin was 2.3%. Adding non-operating income of JPY240 million, including real estate profit and dividends received, ordinary income was JPY2.64 billion, 129.8% year-on-year. However, the Company posted an extraordinary loss of negative JPY1.14 billion, including an impairment loss associated with business withdrawal and restructuring expenses associated with streamlining the head office workforce. As a result, net income for Q3 was JPY950 million, or 52.3% year-on-year, as reported earlier.

Balance Sheet

(in million yen)

	Cumulative Q3RD 2024 Ended Feb.		1ST Half 2025 Ending Feb.		Cumulative Q3RD 2025 Ending Feb.					
	Results	Composition Rate (%)	Results	Composition Rate (%)	Results	Composition Rate (%)	Y/Y Change	Y/Y (%)	Q3/Q2 Change	Q3/Q2 (%)
Current Assets	74,499	53.4%	65,263	50.8%	71,748	53.8%	-2,751	96.3%	6,485	109.9%
Cash and deposits	23,111	16.6%	21,680	16.9%	22,014	16.5%	-1,097	95.3%	334	101.5%
Inventories	32,753	23.5%	28,375	22.1%	30,945	23.2%	-1,808	94.5%	2,570	109.1%
Non-current Assets	65,091	46.6%	63,100	49.2%	61,624	46.2%	-3,467	94.7%	-1,476	97.7%
Investment securities	27,944	20.0%	25,644	20.0%	25,042	18.8%	-2,902	89.6%	-602	97.7%
Investment properties	4,688	3.4%	4,880	3.8%	4,872	3.7%	184	103.9%	-8	99.8%
Total Assets	139,591	100.0%	128,363	100.0%	133,373	100.0%	-6,218	95.5%	5,009	103.9%
Current Liabilities	32,342	23.2%	27,127	21.1%	33,526	25.1%	1,184	103.7%	6,399	123.6%
Short-term borrowings	5,045	3.6%	5,098	4.0%	9,583	7.2%	4,538	190.0%	4,485	188.0%
Current portion of long-term borrowings	3,853	2.8%	1,952	1.5%	1,752	1.3%	-2,101	45.5%	-200	89.8%
Non-current Liabilities	8,807	6.3%	7,034	5.5%	6,471	4.9%	-2,336	73.5%	-563	92.0%
Long-term borrowings	2,562	1.8%	1,016	0.8%	731	0.5%	-1,831	28.5%	-285	71.9%
Total Liabilities	41,149	29.5%	34,162	26.6%	39,998	30.0%	-1,152	97.2%	5,836	117.1%
Net Assets	98,441	70.5%	94,200	73.4%	93,375	70.0%	-5,066	94.9%	-825	99.1%
(Treasury Shares)	(5604)	-4.00%	(5890)	-4.60%	(4550)	-3.40%	1,054	81.20%	1,340	77.20%
Total Liabilities and Net Assets	139,591	100.0%	128,363	100.0%	133,373	100.0%	-6,218	95.5%	5,010	103.9%

Inventory
Through effective procurement management aligned with sales progress and steady efforts to clear past-season items, inventory improved by 1,800 million yen, amounting to 94.5% of the previous fiscal year.

Investment Securities
Aligned with the medium-term management plan's focus on generating cash through "non-core asset reduction," assets decreased by 2,900 million yen compared to the previous fiscal year.

Treasury Shares
(Cumulative Acquisition Over the Past Year: Approx. 6,100 million Yen)
Treasury stock acquired through the end of September 2024 was canceled in October 2024, resulting in a quarterly reduction of 1,340 million yen. Furthermore, a new acquisition totaling 3,000 million yen is currently underway from October 2024 through March 2025.

Equity Ratio
The equity ratio remains strong at 69.8%.

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I would like to review the balance sheet. We diligently optimized our inventory management by aligning purchases closely with sales trends. This was an improvement of 94.5% or JPY1.8 billion from the previous year, reflecting the steady progress in the clearance of prior-year products. Investment securities decreased by JPY2.9 billion from the previous year due to the reduction of non-business assets to generate cash, as mentioned in the Medium-Term Business Plan.

Treasury stock. Share repurchases during the most recent one-year period amounted to approximately JPY6.1 billion. The balance of treasury stock decreased by JPY1.34 billion in the quarter as the Company is also proceeding with retirement. In addition, the Company is in the process of acquiring another JPY3 billion between October 2024 and March 2025.

The capital adequacy ratio remained high at 69.8%.

FY2025 Q3 (Standalone): Existing Channels

Domestic retail (department stores, non-department stores, and e-commerce) faced challenges with the autumn/winter product launch due to record heat. However, continued sales of summer products and recovery after the temperature drop led to a slight YoY sales increase (101.3%). Department stores faced challenges, reaching only 89.8% YoY, primarily due to the underperformance of golf brands, which account for a substantial portion of sales. Meanwhile, women's brands remained strong.

Internationally, sales finished at 87.0% YoY, reflecting the impact of a struggling U.S. wholesale business and adverse currency fluctuations.

(in million yen)

		Q3 FY2023※3	Q3 FY2024※4	Q3 FY2025 Results	YoY
Domestic Retail	Department Store (% of total sales)	5,640 (13.0%)	5,400 (13.0%)	4,850 (11.9%)	89.8%
Domestic Retail	Non-department Store※1 (% of total sales)	18,550 (42.8%)	19,090 (45.9%)	19,730 (48.3%)	103.3%
Domestic Retail	E-Commerce (% of total domestic retail sales)	10,310 (29.9%)	8,130 (24.9%)	8,460 (25.6%)	104.0%
Domestic Misc.※2 (% of total sales)		5,010 (11.6%)	5,490 (13.2%)	4,770 (11.7%)	86.9%
International (% of total sales)		3,780 (8.7%)	3,440 (8.3%)	3,000 (7.3%)	87.0%

※1 Non-Department Store: Stores located in shopping centers, outlet malls, etc.
※2 Domestic Misc.: Wholesale sales, sales to the employees and other sales by TSI Group's apparel related business as well as non-apparel business
※3 The exchange rate reference date has been partially adjusted. There is no impact on consolidated revenue.
※4 Some misstatements under the new revenue standard have been corrected (Domestic EC - Other, Domestic EC - Total, Domestic - Other, and Domestic & International EC - Total). These corrections do not affect consolidated revenue.

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This is an overview by channel.

Domestic retail sales struggled with the start of the autumn and winter sales season due to the record-breaking late summer heat that persisted over September, October, and until the middle of November. Due to the continued sale of summer products into the autumn season and the recovery after the temperature drop, sales slightly exceeded the previous period, reaching 101.3% year-on-year. Of these, department stores struggled, with sales reaching 89.8% year-over-year. This is mainly due to the struggles of certain brands, including golf brands, for which we have a significant share of the sales in this channel. However, these brands are now stabilizing, and we have high expectations for the next fiscal year.

The women's brand is performing well.

On the other hand, the wholesale business in the US is struggling severely. The impact of exchange rate fluctuations has also contributed to the decline, landing at 87% year-on-year.

FY2025 Q3 (Standalone): Existing Channels (E-Commerce)

In the domestic market, despite revenue shortfalls from reduced promotional expenses and lingering summer heat, strong sales of limited-edition and collaborative products resulted in surpassing YoY performance. By cutting ineffective initiatives, promotional costs were optimized, improving cost-effectiveness and profitability.
In the overseas market, although performance fell short YoY due to exchange rate fluctuations, signs of recovery are emerging.

(in million yen)

	Q3 FY2023※2	Q3 FY2024※3	Q3 FY2025※3	Vs FY2023	Vs FY2024
Domestic In-House E-comm sales	4,510	3,590	3,550	78.7%	98.9%
(% of total EC sales)	(43.7%)	(44.1%)	(41.9%)	(-1.8pt)	(-2.2pt)
Domestic E-comm sales	10,310	8,130	8,460	82.0%	104.0%
(% of total domestic retail sales)*1	(29.9%)	(24.9%)	(25.6%)	(-4.3pt)	(0.7pt)
Int'l E-comm sales	1,070	850	850	79.4%	99.4%
(% of Total Int'l retail sales)	(28.3%)	(24.9%)	(28.4%)	(0.1pt)	(3.5pt)
Total E-comm Sales	11,390	8,990	9,310	81.8%	103.6%
(% of total retail sales)※1	(29.7%)	(24.9%)	(25.9%)	(-3.9pt)	(0.9pt)

※1 The e-comm sales ratio is calculated excluding other domestic sales (such as wholesale and employee sales).
※2 The exchange rate reference date has been partially adjusted. There is no impact on consolidated revenue.
※3 Some misstatements under the new revenue standard have been corrected (Domestic EC - Other, Domestic EC - Total, Domestic - Other, and Domestic & International EC - Total). These corrections do not affect consolidated revenue.

Future

mix.tokyo

TSI Inc. is integrating its 11 e-commerce sites and membership services to maximize revenue through enhanced services and cross-brand product presentations.

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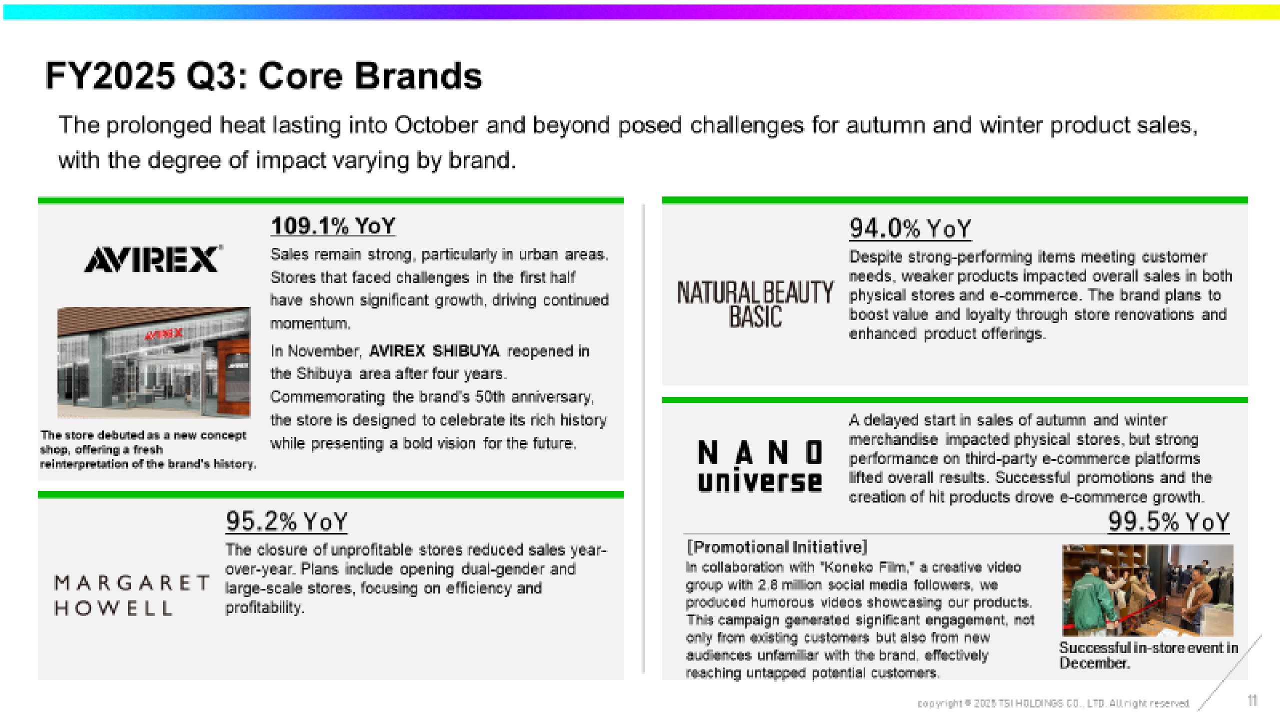
The e-commerce sales results. Domestically, sales were affected by revenue shortfalls due to reduced promotional expenses and lingering summer heat. However, strong sales of limited-edition and collaborative products led to performance exceeding the previous period. By cutting promotional expenses for initiatives with low expected impact, cost-effectiveness has improved, leading to better profitability.

For overseas businesses, although sales did not reach the level of the previous fiscal year, this was due to the impact of foreign exchange rates, and in fact, sales are on a recovery trend.

As a major part of our reforms, also for the future direction, we are integrating directly- managed online stores of our brands. The new site is scheduled to be released in February this year. The name is "mix.tokyo." By expanding the unique and diverse customer touchpoints established by each brand to the entire TSI brand portfolio, we aim to propose new entertainment values across brands aligned with customer preferences and various occasions.

We also hope to increase our corporate strength by making an integrated appeal, and in doing so, we hope to create a new network.



Here is an overview of brands.

While the impact of the lingering summer heat, which lasted longer than the previous year varies from brand to brand, the autumn/winter products faced a challenging sales season.

AVIREX is becoming a mainstay brand within TSI, with a 109.1% YoY growth rate. It reopened its Shibuya store in November. As the brand celebrates its 50th anniversary this year, we are having a good number of customers who have gathered to visit the store.

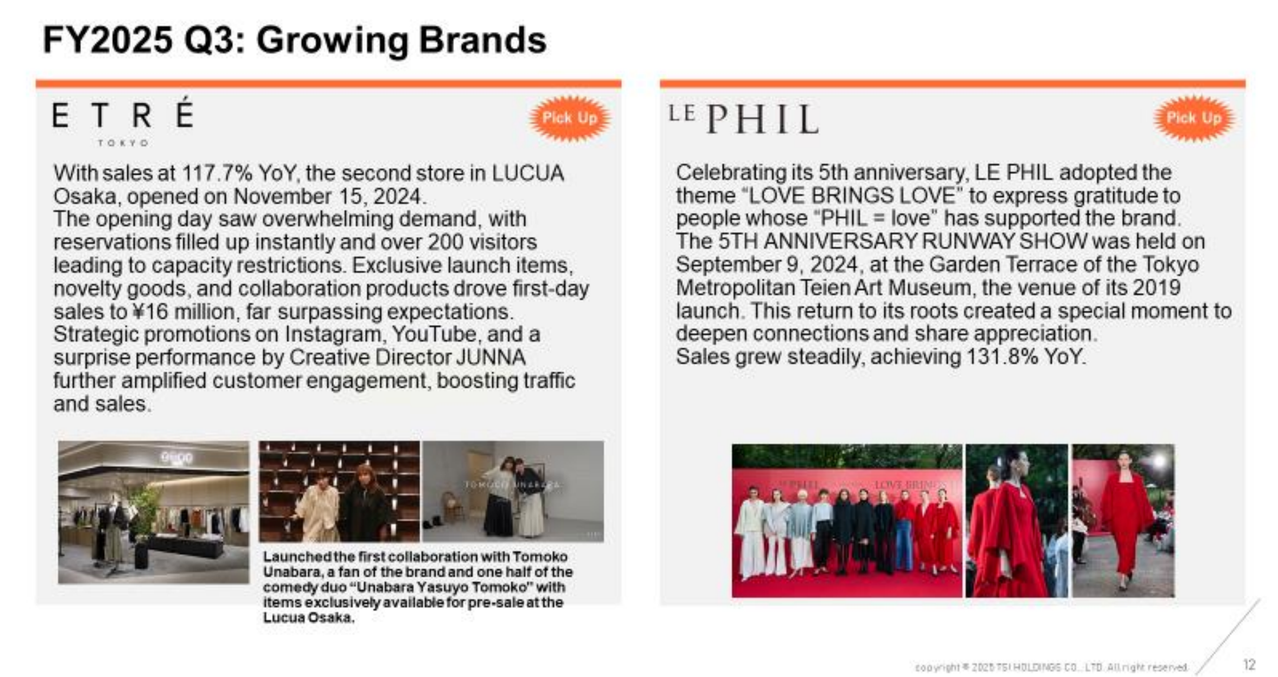
The sales have been increasing since the beginning of autumn and winter.

Second, MARGARET HOWELL. The figure is 95.2% compared to the previous year. The withdrawal from unprofitable stores led to lower sales than in the previous fiscal year. This is part of the structural reforms that we are working on, and we want to make sure we accomplish it.

Instead, in the future, we plan to open large stores that carry both men's and women's clothing, and that also includes a café to increase sales efficiency and profitability.

NATURAL BEAUTY BASIC. The result was 94% year-on-year. We had some well-performed items that aligned with the start of autumn and winter and the market's needs. However, it did not cover the sales expected from underperforming items and both retail and e-commerce tended to suffer in the form of overall product strength.

The figures for the renovated stores, including those from the previous fiscal year, have been increasing. By renovating stores as part of our branding efforts, we aim to invigorate both customers and store staff, which we believe will lead to an increase in key metrics. We are optimistic about the positive impact this will have. NANO UNIVERSE. The sales are recovering at 99.5% year-on-year. The physical stores struggled due to the slow start of the autumn and winter season, but the strong performance of a third-party E-commerce platform has boosted the overall sales. Effective sales promotion measures and well-performing products have been developed, leading to strong e-commerce sales.



Please allow me to introduce two brands that are growing and doing well.

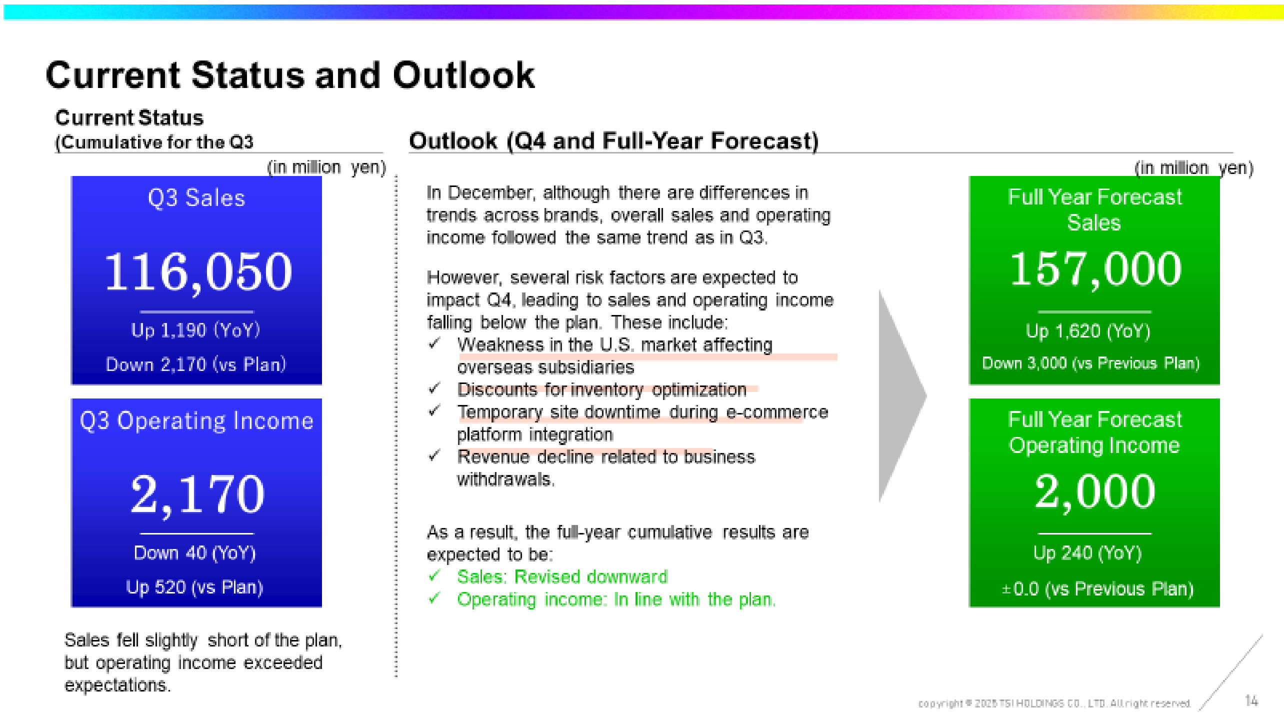
First is ETRÉ TOKYO. Sales continued to be very strong, at 117.7% year-on-year. The second directly managed store, the LUCUA Osaka store, opened on November 15 last year. On the opening day, the reservation slots filled up immediately and we had many customers.

Sales on the first day reached a record JPY16 million, far exceeding the target. Thriving through e-commerce, the brand has sparked eager customer anticipation for the debut of the second physical store, filling us with immense joy. Junna, the creative director, confirmed that the brand's design concept is reflected in our products.

Next is LE PHIL. Sales were also extremely strong, at 131.8% year-on-year. LE PHIL is celebrating the fifth anniversary of the brand this season. Last year, we opened a store in Azabudai Hills and attracted overseas visitors.

We also held a fashion show at the Tokyo Metropolitan Teien Art Museum, the same venue we used for the brand launch in 2019, and many customers came and were pleased with the show.

We have several brands that are performing well, including ETRÉ TOKYO and LE PHIL, and we would like to support them.



This section describes the revisions to the plan.

This is the current status and future outlook. Over the consecutive nine months, sales exceeded the performance of the same period last year. However, sales fell short of the target by approximately JPY2 billion. On the other hand, operating income was slightly below the previous year's level but landed about JPY500 million above the plan.

In revising our full-year forecast, we had hoped to revise our operating income forecast upward as well. The Q3 year-to-date and December month-to-date results are higher than the same period last year; however, they are slightly short of the planned goal.

Overseas subsidiaries, the ones in the US in particular, are struggling. Sales are somewhat conservative due to the accelerated inventory reduction and the impact of shutdowns of e-commerce sites during integrating multiple sites. Sales fell short of the initially planned target by JPY3 billion. Operating income is expected to be in line with the initially planned target.

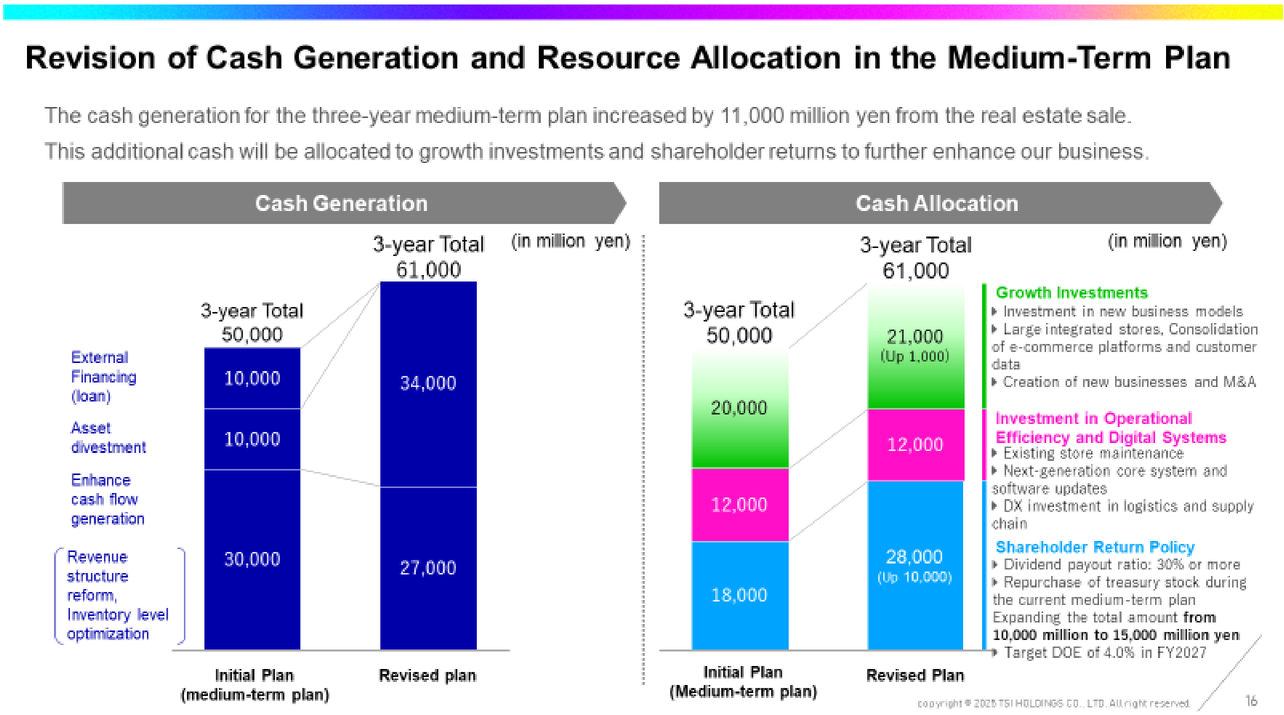
Regarding inventories, we continue to accelerate the reduction of inventories, especially in the golf business, and it is progressing well, assuming that the inventory reduction will run its course in the current fiscal year.

Integration of e-commerce sites. We announced on all e-commerce sites that the sites will be closed for about 10 days during February. This could be a factor in the sharp drop in the sales performance figures.

With the announced withdrawal of ROSE BUD and several other brands, there is also an element of earnings deterioration, mainly due to inventory disposal. By controlling SG&A expenses and other earnings, we expect to achieve our original plan for full-year operating income.

Financial strategy and capital policy. We have reached an agreement on the sale of investment real estate and have issued a separate press release. We will refrain from going into further detail beyond what is stated here, as we have agreements with each of our counterparties. This is positioned as part of TIP27's non-business asset reduction and is a measure to improve capital efficiency.

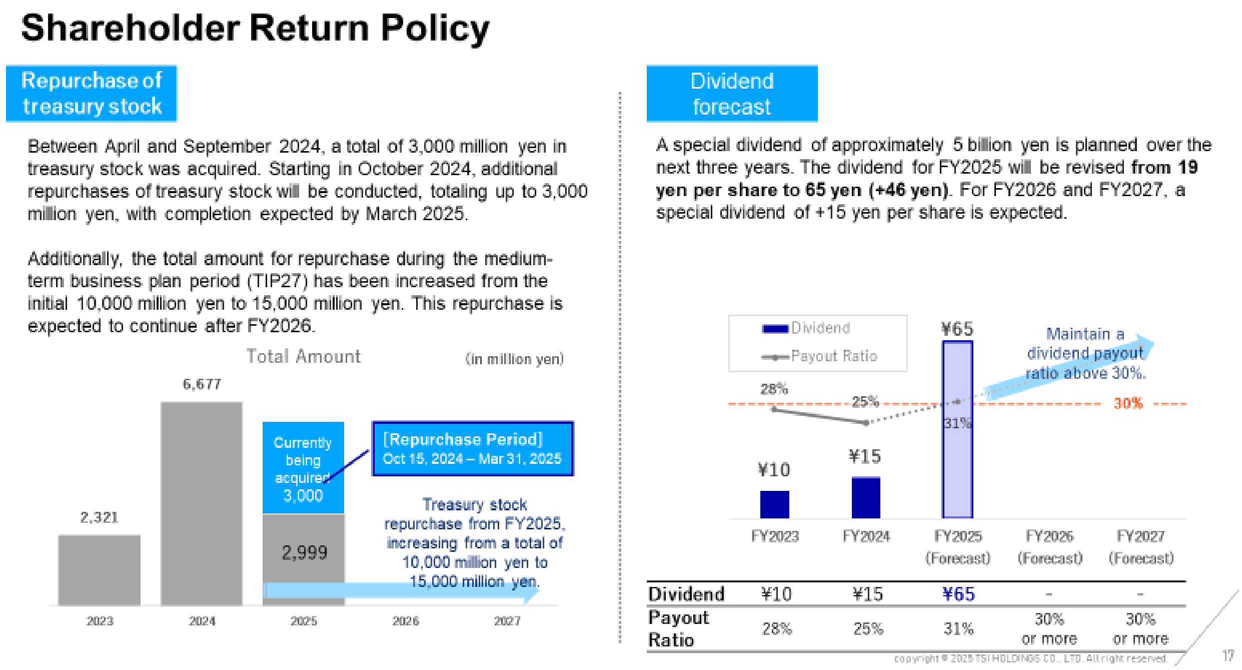
As a result of this transaction, the Company plans to record a gain on sale of JPY23.9 billion in extraordinary income in Q4. We will discuss the uses of the increased cash on the next page.



The property sale resulted in significant cash generation from the reduction of non-business assets. We will modify the cash allocation for TIP27.

In the revised plan, the total cash generation for the three-year period will be increased to JPY61 billion by expanding the amount of non-business asset reduction and thereby not assuming external financing. The majority of the JPY11 billion increase will be used to strengthen shareholder returns. Specific details of the reductions are discussed on the next page.

On the other hand, growth investments are slightly increasing. We will actively promote the project. In M&A in particular, we believe that there may be cases where external procurement is used flexibly, depending on the scale of the acquisition. At that time, we would like to communicate with investors again using press releases and other means.



Details of shareholder return policy amendments. Regarding treasury stock, we had planned to purchase more than JPY10 billion of treasury stock over the three years of TIP27. With this revision, we will add JPY5 billion in acquisitions, targeting JPY15 billion in purchases over the three-year period.

Regarding the dividend forecast, we will pay a special dividend of approximately JPY5 billion over the three-year period as a return of cash from the sale of real estate. The dividend per share for the fiscal year ending February 2025 will be revised from JPY19 to JPY65.

The increased amount of JPY46 will be a special dividend in the current fiscal year. From the next fiscal year onward, we plan to add another JPY15 to that amount while maintaining the policy of a dividend payout ratio of 30% or more, as indicated in TIP27 for the remaining two years.

Full-Year Consolidated Earnings Forecast

In light of recent performance trends and upcoming financial and capital policies, we have decided to revise the consolidated financial forecast for the fiscal year ending February 2025, originally announced on April 12, 2024. The updated forecast is as follows:

(*: in million yen)

	FY2025 Full-year Forecast	Revised Forecast	Difference
Sales*	160,000	157,000	Down 3,000
Operating Income*	2,000 (Profit margin：1.25%)	2,000 (Profit margin：1.27%)	-
Ordinary Income*	2,500 (Profit margin：1.56%)	2,500 (Profit margin：1.59%)	-
Profit Attributable to Owners of Parent*	4,000 (Profit margin：2.50%)	15,000 (Profit margin：9.55%)	Up 11,000
Earnings per share	53.04 yen	211.67 yen	-
Dividend per share	19 yen	65 yen	Up 46 yen

Sales are expected to reach 157,000 million yen, with net income attributable to the parent company's shareholders projected at 15,000 million yen, driven by a special profit from the sale of real estate.

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This is about the forecast of consolidated financial results for the full year.

Due to recent performance trends and the details of our future financial and capital policies, we have decided to revise our consolidated earnings forecast for the fiscal year ending February 28, 2025, announced on April 12, 2024.

Net sales are projected to be JPY157 billion, taking into account progress to date and future risk factors. Net income attributable to the parent company is expected to be JPY15 billion, with an extraordinary gain from the sale of real estate. The details are described in this slide.

In the meantime, here are some news and topics.

MOVE WEAR—a versatile garment that can be attached to robot arms, was developed through a collaboration between our design team at NANO UNIVERSE and Mr. Yoshifuji Ory, starting in March 2024. It was showcased at the MOVE FES 2024 event, which was designed and produced by Mr. Masatane Muto. He performed live and wore it in front of an audience of approximately 1,500 people.

This challenge marked our first step toward shaping future possibilities, and we believe we were able to receive positive feedback from a large audience. We have footage of a documentary video that details every step of the project, which is accessible through the URL link in this slide. Please watch.

On a separate note, NANO universe has introduced a made-to-order inclusive clothing initiative, namely, KIYASUKU with ZOZO, and is starting to take orders on ZOZOTOWN for pants that can address the concerns of wheelchair users. From the perspective of diversity, we will continue to strive to create a world in which all people, including those with disabilities, can enjoy fashion.

We collaborate with various industries, products, and services to create fashion entertainment. Here are some examples of these efforts.

NANO universe × music. NANO universe held a live event, "Music from NANO universe," in collaboration with Billboard Live, one of Japan's leading music venues. We sold goods made in collaboration with artists, which showed strong sales, leading to reorders.

JILL by JILL STUART × toy. JILL by JILL STUART supervised the development of capsule toys, a miniature keychain version of a popular frilled tote bag distributed by TOYS SPIRITS Co., Ltd. The products became a topic of conversation since their launch and have received a positive response with a string of sell-outs.

Earth Cafe x local communities. Earth Cafe created three kinds of special sweets using local food items from Kamikawa Town in Hokkaido, the town with which TSI HOLDINGS has a comprehensive cooperation agreement. We sold these desserts at a Kamikawa Town booth at Tennoz Canal Fes 2024 Autumn and Winter, which took place in Tennoz Isle.

Through the power of fashion entertainment, we will create empathy and social value around the world. TSI HOLDINGS Group continues to be the creator of fashion entertainment, and although we are still in the process of reform, we believe we are gradually seeing positive changes and are confident that 2025 will bring even greater progress. The fiscal year ending February 2025 will end fairly soon, but we will do our utmost to complete it well, and as we enter the next fiscal year ending February 2026, we will make our utmost efforts to spread our wings even further. Thank you for your attention.

[END]

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Document Notes

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