

 TSI HOLDINGS

# MEDIUM-TERM BUSINESS STRATEGY

TSI Innovation Program 2027

2024.4.12



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TSI Innovation Program 2027

1. Background and Objectives
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# Evaluation of TIP25

In April 2022, the TSI Innovation Program 2025 (TIP25) was introduced as an updated version of the Medium-Term Business Strategy. However, the company has fallen far short of its goals by the end of the second year of the plan.

FYE Feb 2024	TIP25 Target (In Billion JPY )		Actual (In Billion JPY )
Sales (YoY %)	172.3 (109.6%)	↔	155.4 (100.6%)
EC Ratio	35%	↔	28%
SG&A (SG&A Ratio)	92.8 (53.9%)	↔	82.9 (53.4%)
Operating Profit (Margin)	4.7 (2.8%)	↔	1.7 (1.1%)
ROE	5.3% (FYE Feb 2025 Target)	↔	5.0% (2.9% in Real Term)
Business Investment	30 (FYE Feb 2025 Target)	↔	11.1
Repurchase of Treasury Stock	—	↔	9

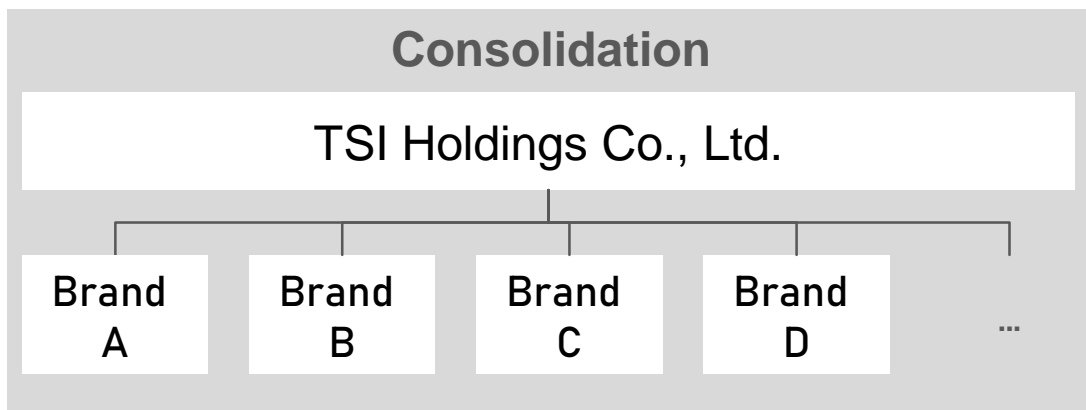
While some businesses underperformed, the company's delayed response to environmental changes also affected results.

The TSI Innovation Program 2027 (TIP27) is a rolling structural reform program that commences in the current fiscal year (FYE Feb 2025), rather than an extension of its predecessor, the TIP Innovation Program 2025.

# Background & Purpose of the Medium-Term Business Strategy “TSI Innovation Program 2027 (TIP27)”

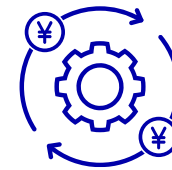
## Brief History of TSI

- ▶ In 2011, TSI was established by merging Tokyo Style and Sanei International. Since then, TSI has undergone numerous mergers and integrations, and with a clear emphasis on the autonomy of each brand, it has consistently grown by leveraging the strength of each brand to its advantage.
- ▶ While the foundation of the current management is in place, efforts to unify business operations are still in progress.
- ▶ As a result, it has become the norm to fall far short of targets.



## Purpose of TIP 27

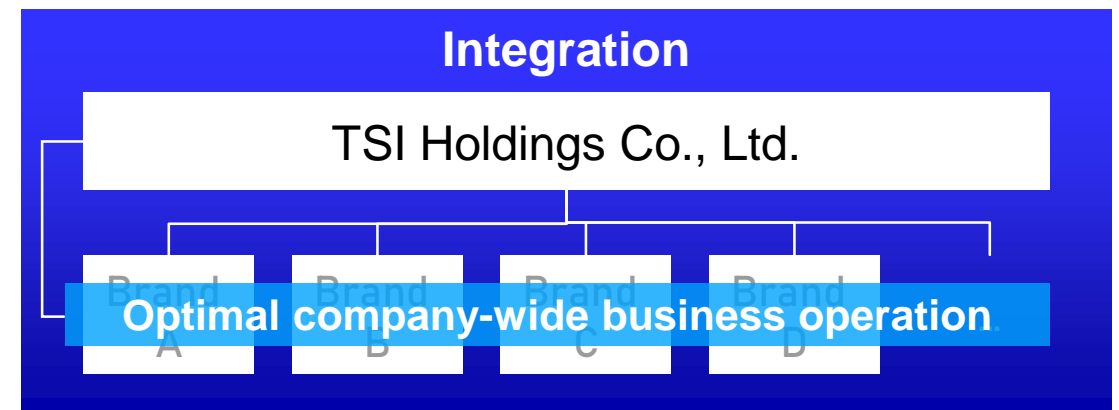
- ▶ With TIP27, TSI Holdings implements structural reforms to optimize business operations company-wide to generate high profits and revenue.



Profit structure reform  
across the board



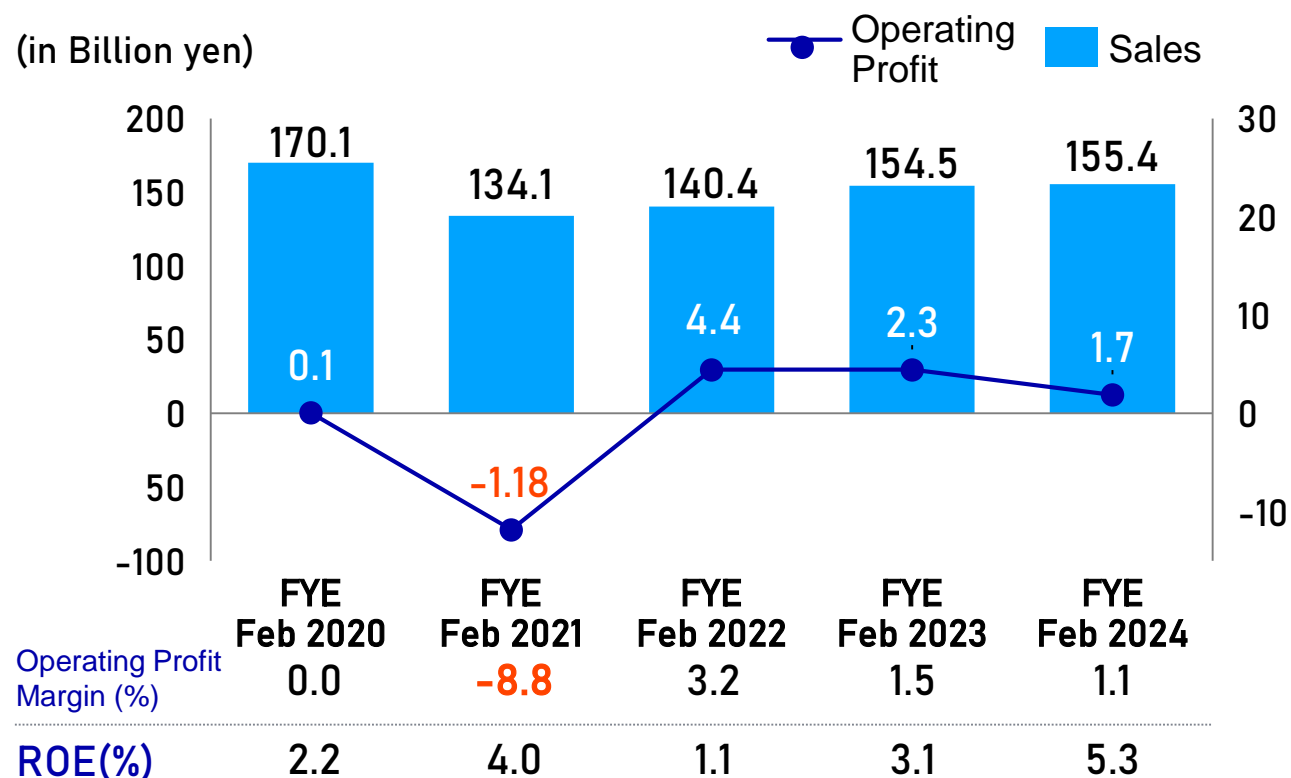
Growth strategy led by  
core brands




# Current Status of TSI Holdings


## Transition of Key Management Indicators Over the Past Five Years (Feb 2020-Feb 2024)

- ▶ Post-pandemic sales have been gradually growing, however, profitability is still low.



### Company-wide challenges in growth with profitability

 **Slow sales recovery after the pandemic and no significant increase in sales.**

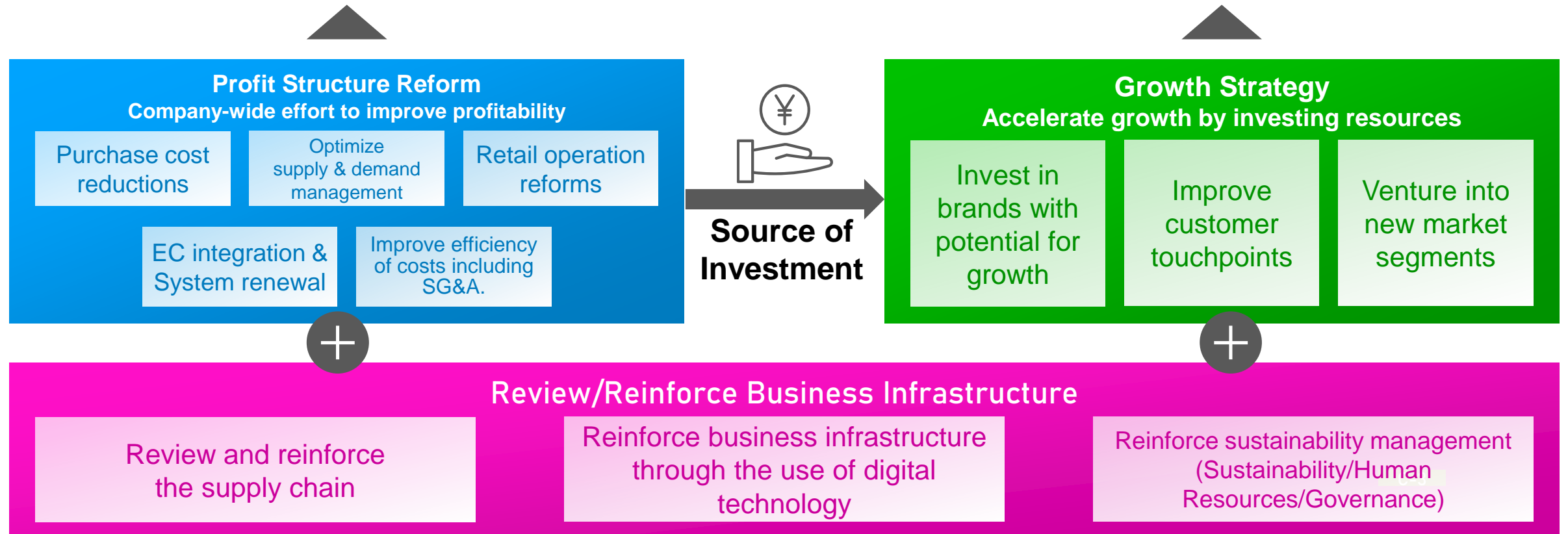
 **Low profitability caused by slow adaptation to rapid changes in the environment**

 **Apparent capital inefficiencies**

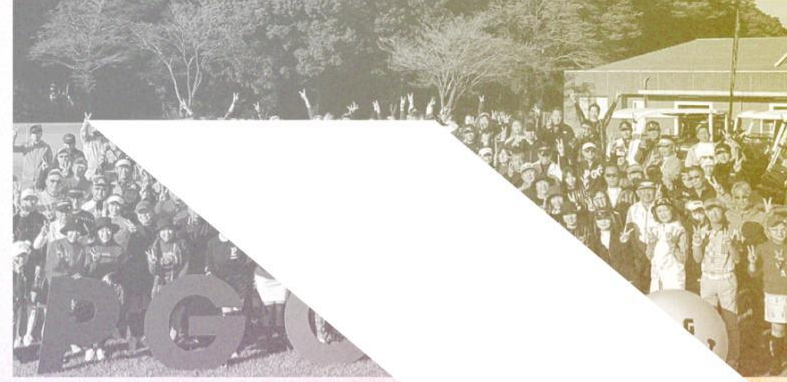
# TIP 27: Transformation of TSI Group

Reform the Profit Structure and Invest in the Growth and Human Resources to Increase TSI's Corporate Value.

**Fulfill TSI's Vision: "Creator of Fashion Entertainment"**







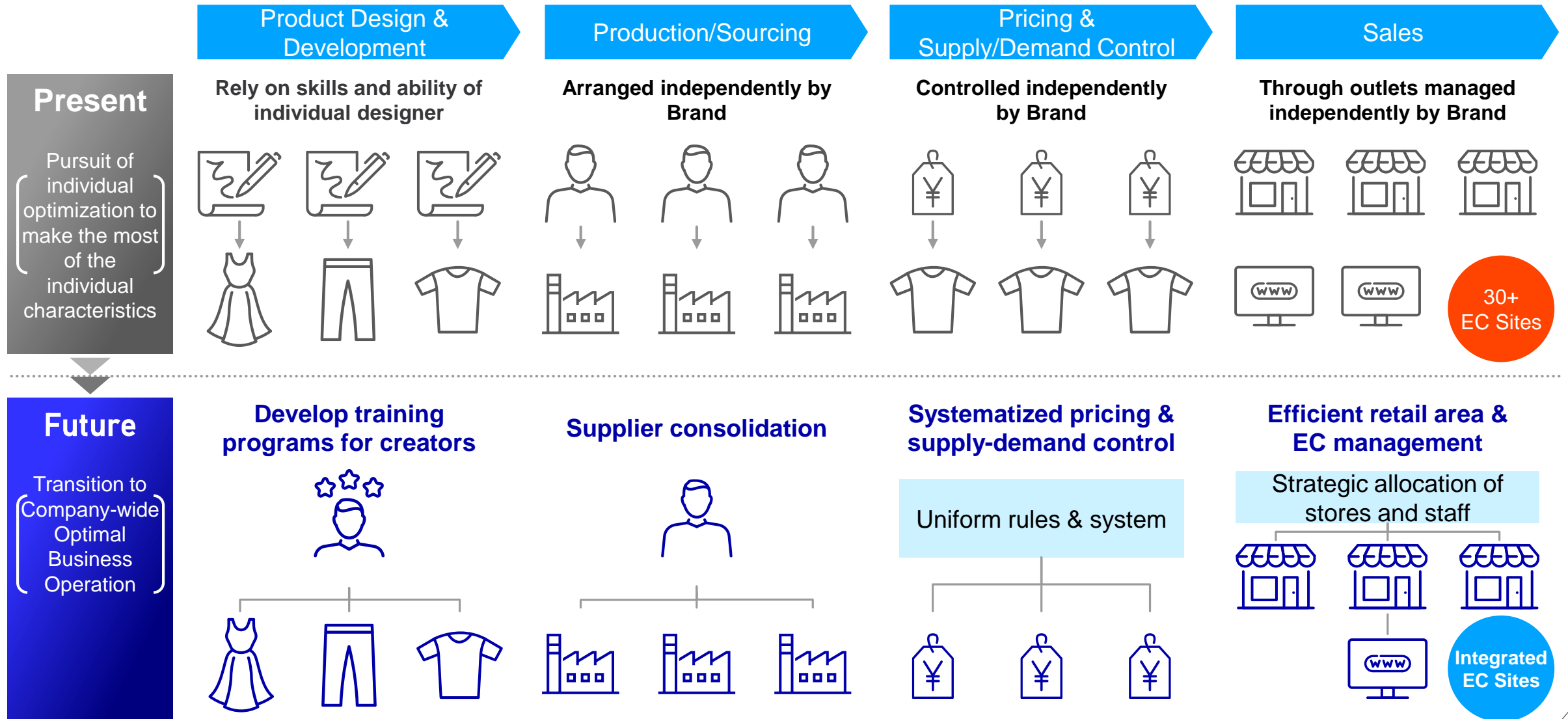
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# Profit Structure Reform





# Profit Structure Reform: Company-wide Efforts to Improve Profitability





# Profit Structure Reform: Achieve Operating Profit of Over 10 Billion Yen in FYE Feb 2027

Purpose	Current Issues	Course of Action	Completion	Impact
Purchase Cost Reductions	<ul style="list-style-type: none"> <li>▶ Decentralized procurement is causing high COGM.</li> </ul>	<p><b>Consolidate orders/improve purchasing leverage</b></p> <ul style="list-style-type: none"> <li>▶ Cost reduction through revision of business schemes/contracts with suppliers/manufacturers</li> </ul>	<ul style="list-style-type: none"> <li>▶ FYE Feb 2026</li> </ul>	<p>FYE Feb 2027 (1-year)</p> <p>Approx. 3 billion yen</p>
Optimized Supply & Demand Management	<ul style="list-style-type: none"> <li>▶ Stick to the traditional way of setting retail prices.</li> <li>▶ Increasing loss of opportunity and volume of dead stock.</li> </ul>	<p><b>Strategic pricing/sales promotions</b></p> <ul style="list-style-type: none"> <li>▶ Optimization of retail pricing and cost ratio.</li> <li>▶ Reassess promotional/discount sale programs</li> </ul>	<ul style="list-style-type: none"> <li>▶ FYE Feb 2027</li> </ul>	<p>Approx. 2.5 billion yen</p>
Retail Operation Reform	<ul style="list-style-type: none"> <li>▶ Inefficiencies in assigning staff specifically for each brand/store.</li> </ul>	<p><b>Increase efficiency/productivity of staffing</b></p> <ul style="list-style-type: none"> <li>▶ Optimal allocation of store staff across brands and by area. Consolidate underperforming stores and development of large stores.</li> </ul>	<ul style="list-style-type: none"> <li>▶ FYE Feb 2026</li> </ul>	<p>Approx. 1.5 billion yen</p>
EC Integration & System Renewal	<ul style="list-style-type: none"> <li>▶ Inefficiencies in system-related/operational costs due to an overabundance of independent EC sites within TSI.</li> </ul>	<p><b>EC site integration</b></p> <ul style="list-style-type: none"> <li>▶ Improve operational efficiency by integrating EC functions/websites that exist under each brand.</li> <li>▶ Streamline the backend operations</li> </ul>	<ul style="list-style-type: none"> <li>▶ FYE Feb 2025</li> </ul>	<p>Approx. 0.5 billion yen</p>
Improve efficiency of costs including SG&A	<ul style="list-style-type: none"> <li>▶ Insufficient cost budgeting</li> <li>▶ Brands working in silos.</li> </ul>	<p><b>Ensure ROI-driven expenditures</b></p> <ul style="list-style-type: none"> <li>▶ Review of brand positioning and cost/staffing structure based on ROI of measures</li> </ul>	<ul style="list-style-type: none"> <li>▶ FYE Feb 2026</li> </ul>	<p>Approx. 2.5 billion yen</p>

**TOTAL: 10 billion  
yen**





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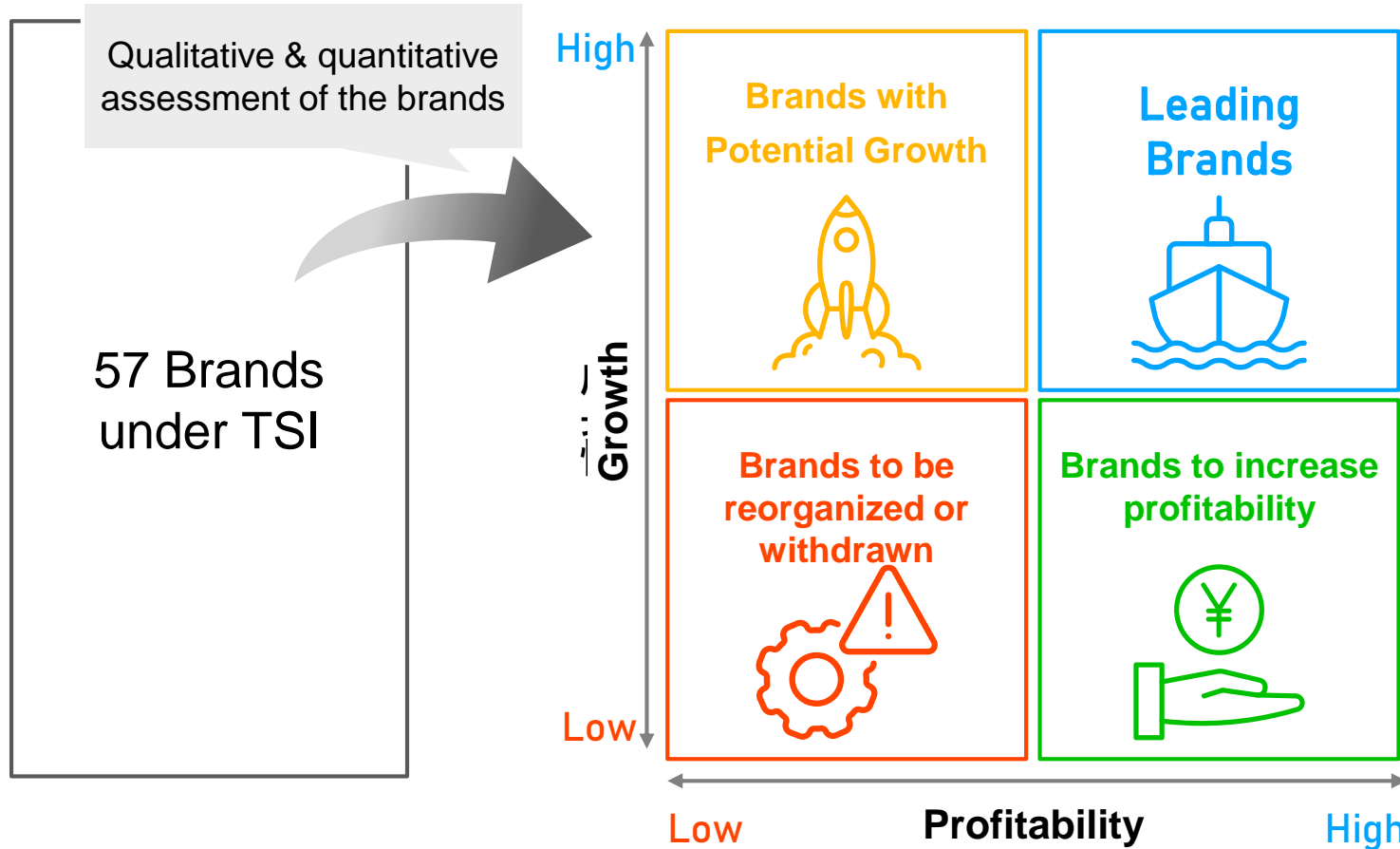
# Growth Strategies





# Portfolio Prioritization

Identify the growth potential and profitability of each brand.



Focused investment in leading brands

**Capital investment in brands with higher potential of growth and profitability**

Reallocation of resources



Decisive action will be taken against underperforming brands, which may include restructuring measures or withdrawal from the market.

Note: Number of the brands as of March 31 2024



# Investment in Brands with Potential of Growth: Scale up the Existing Brands



**Mission**      Bring Joy and Style to the Sports      Playful and Distinctive Styling      Enhance the Beauty of our Customers.      Pursuit of the Most Advanced Business Styles  
Offer sophisticated fashion style

**Leading Brand**

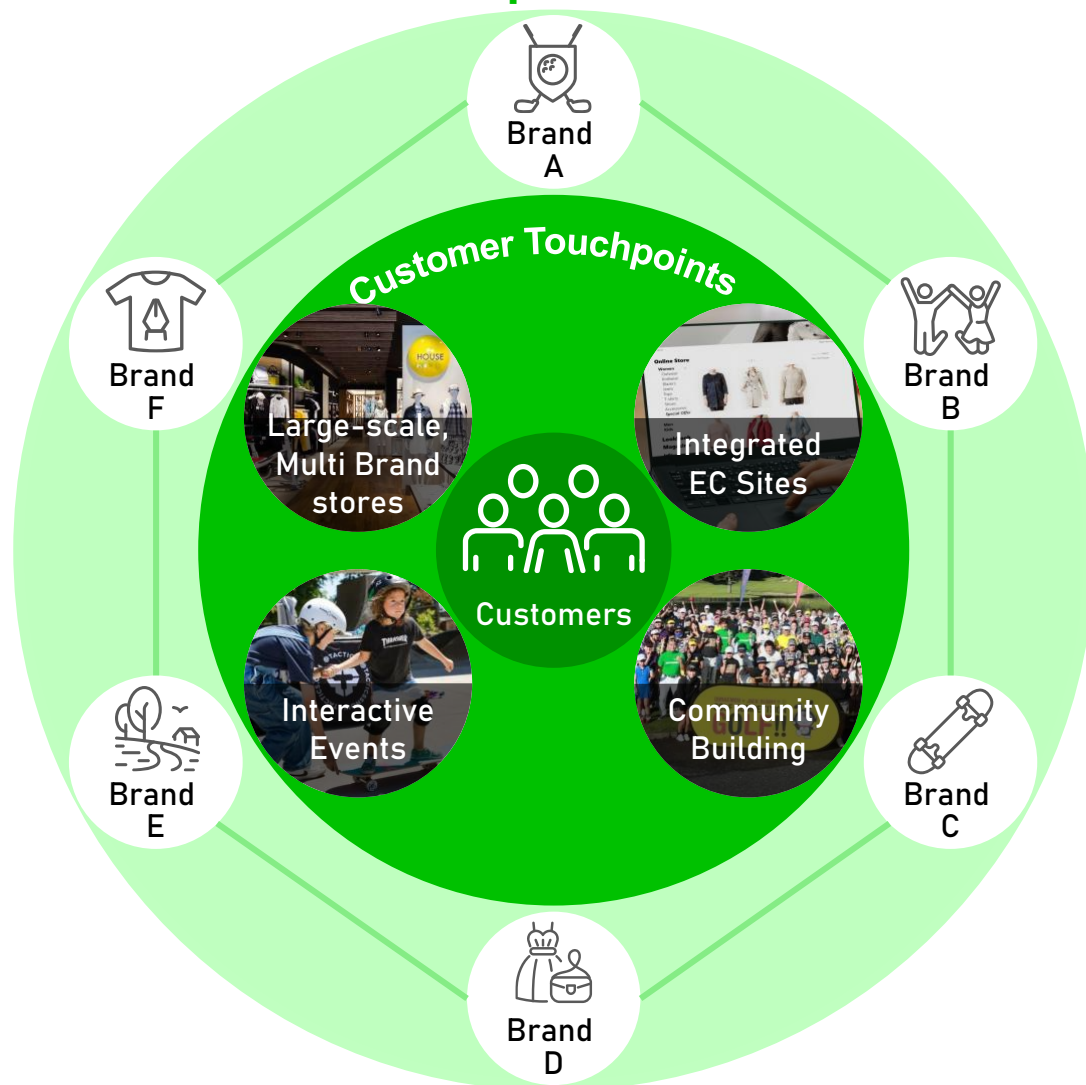
 MARGARET HOWELL	 	 NANO universe	NATURAL BEAUTY BASIC      ARPEGE ADORE      LE PHIL	E T R É T O K Y O hueLe Museum
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- The Way Forward**
- ▶ Develop and venture into new market with sport-oriented casual wear.
  - ▶ Offer a simple yet sophisticated lifestyle that our target consumers aspire to by broadening the concept of the brand.
  - ▶ As a leading company in the streetwear category, drive growth in the industry by developing new brands and expand the scope of distribution channels including department stores.
  - ▶ Provide playgrounds where street culture will be created.
  - ▶ Venture into premium market with the brands nurtured in department stores and shopping centers adjacent to the railroad stations.
  - ▶ Expand the collection to include non-apparel categories such as household goods that align with the brand's concept.
  - ▶ Create new markets and values with innovative creators/technologies

# Improvement of Customer Touchpoints:

Upgrade CRM system to increase the number of potential customers and sales opportunities.

Build multi-dimensional links with customers with our unique brands.



For future consolidation of stores and e-commerce sites, **expand the customer touchpoints that each brand has established independently to TSI's entire brand portfolio.**

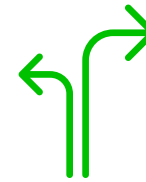
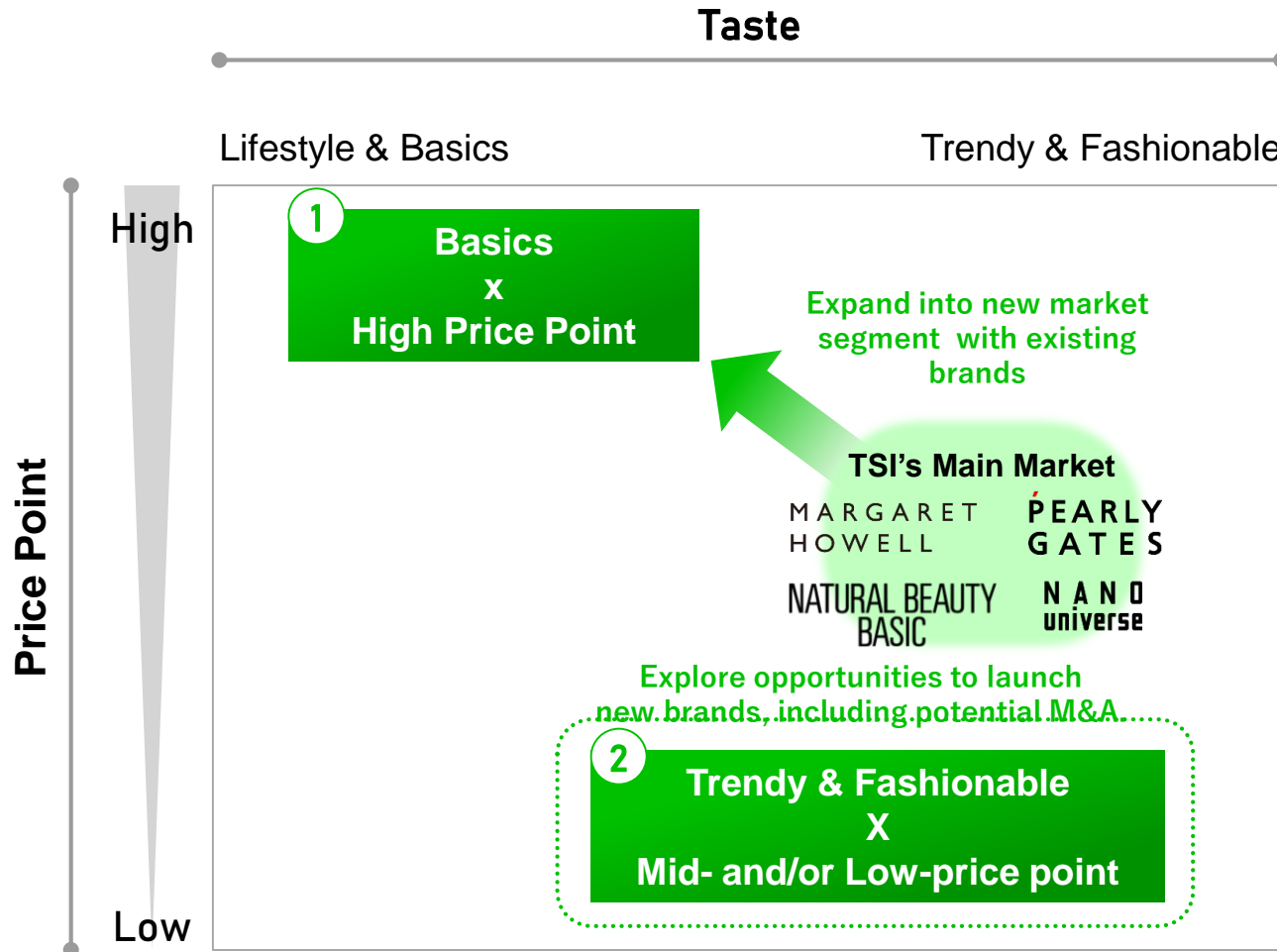
**Present new forms of entertainment value across brands in line with customer preferences/scenes.**

- ▶ Community events that provide experiences and new discoveries designed to enhance brand loyalty



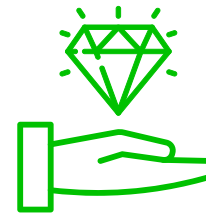
# Venture into New Market:

Explore the opportunities in new market segments taking the latest trends and TSI's core competencies into consideration.



## Market

- ▶ Increasing market polarization



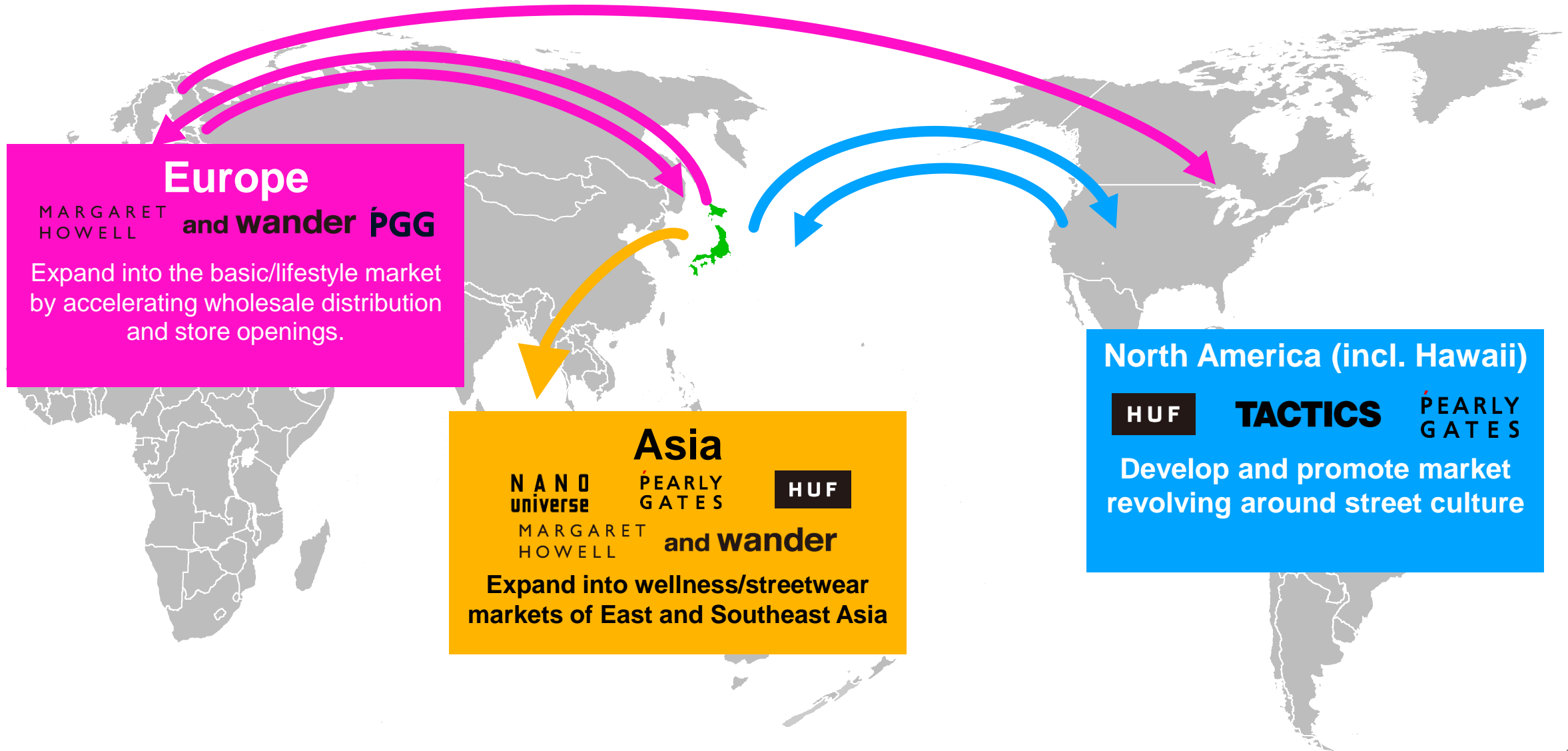
## Core Value of TSI

- ▶ Ability to create innovative fashion items
- ▶ Unique brand portfolio

1 Expand into the high-end market by offering the value of *simple and sophisticated lifestyle*.

2 Enter into the mid- to low-end market with *fashionable yet affordable products*

# Venture into New Market: Expand into International Market





# Contribute to Society with an Emphasis on Fashion, Design, and Hospitality



# TIP27 Quantitative Targets

Key Goal Indicator for FYE Feb 2027

Operating Profit: **10 billion yen**, ROE: **8.0%**, Sales: **165 billion yen**

	FYE Feb 2024 (Actual)	FYE Feb 2025 (Target)	FYE Feb 2027 (Target)	
Target Revenue (JPY)	Sales	155.4 billion	160 billion	165 billion
	Operating Profit	1.7 billion	2 billion	10 billion
	Net Income	4.8 billion (2.8B*)	4 billion	7.7 billion
KPI (%)	Operating Profit Margin	1.1%	1.3%	6.0%~
	ROE	2.9%*	4.2%	8.0%~
	DOE	1.3%*	1.4%	4.0%~

\* Calculated based on net income on an Effective Tax Rate basis, without taking into account tax effects.





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# Financial Strategy & Capital Management

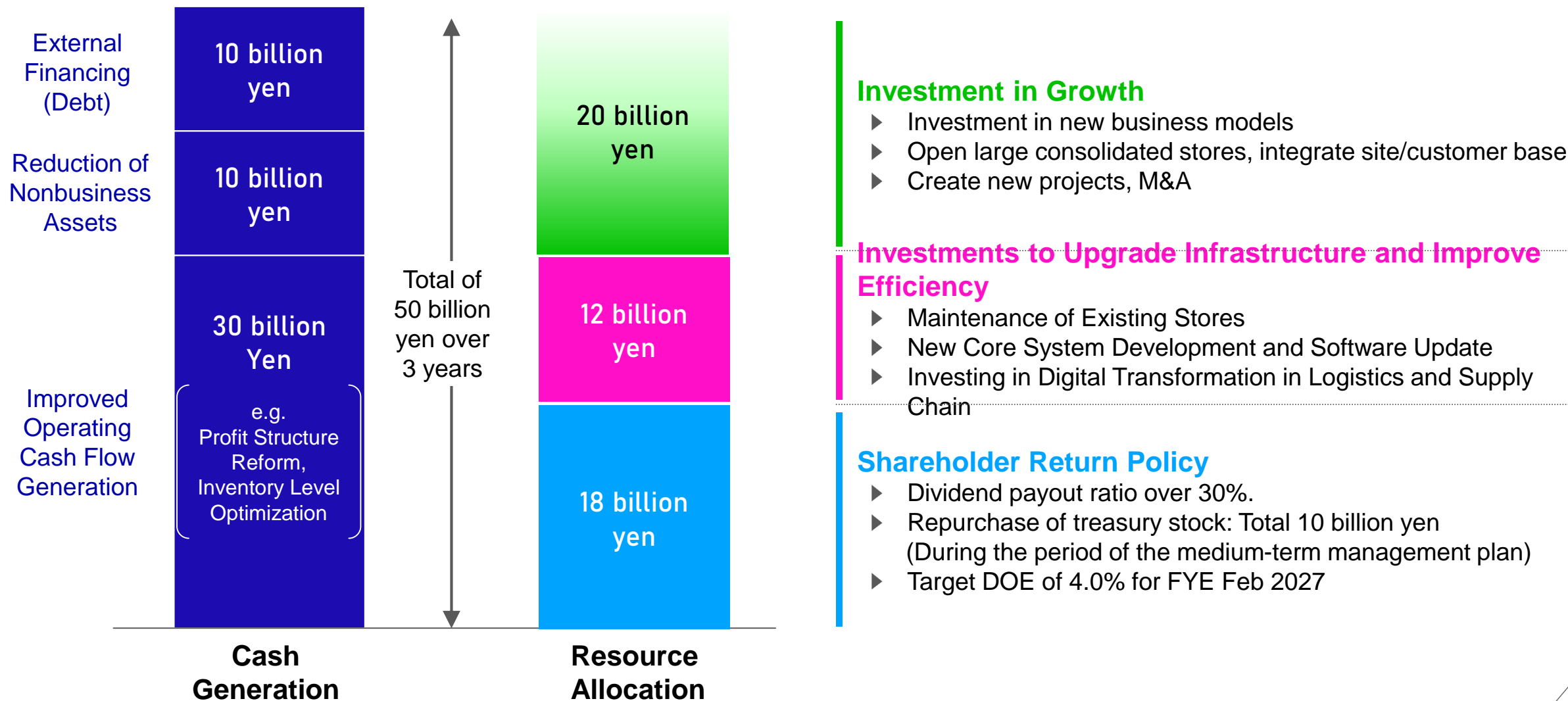


Enjoy myself



# Resource Allocation Policy for the Three-Year Medium-Term Business Strategy

By optimizing profit structures and divesting inefficient assets, we can enhance profitability, strengthen cash flow, and build a solid foundation for future growth and strategic investments.





# Financial Strategy & Capital Management: Cash Generation

Improve cash generation by reforming profit structure and reducing inefficient assets to generate 50 billion yen over 3 years.

## Main Strategies and Objectives

## Course of Action

### Improvement of Operating CF Generation

- ▶ Profit Improvement
- ▶ Inventory Efficiency Improvement

- ▶ Execute profit improvement projects and improve inventory efficiency to generate 30 billion yen in cash over three years.

### Reduction of non-business assets

- ▶ Investment Securities
- ▶ Real Estate

- ▶ Generate 10 billion yen in cash through the sale of investment securities and real estate.

### External Financing (Borrowings)

- ▶ Borrowings from financial institutions

- ▶ Borrow 10 billion yen to invest in growth areas according to the portfolio strategy.

# Financial Strategy & Capital Management: Resource Allocation

Make strategic investments to strengthen TSI's business foundation and achieve exponential growth.

## Categories

## Action

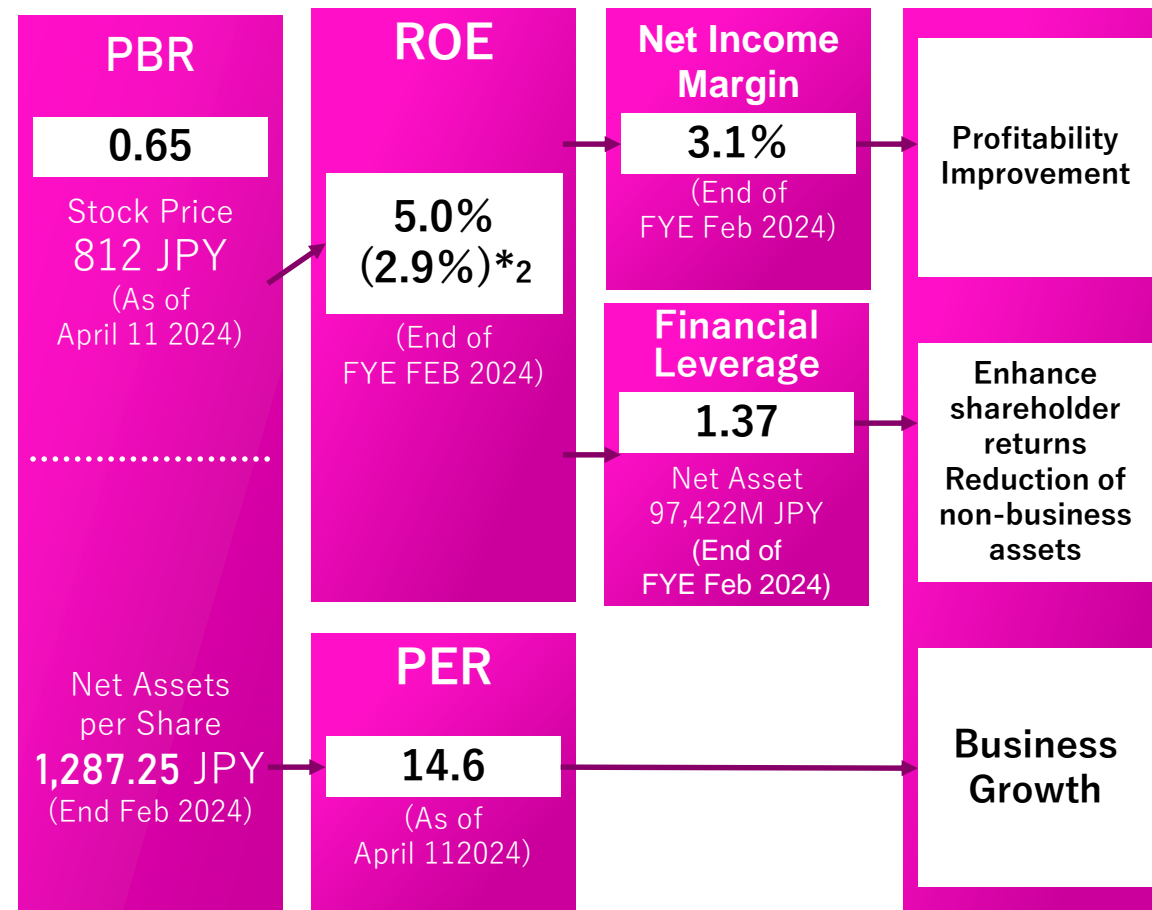
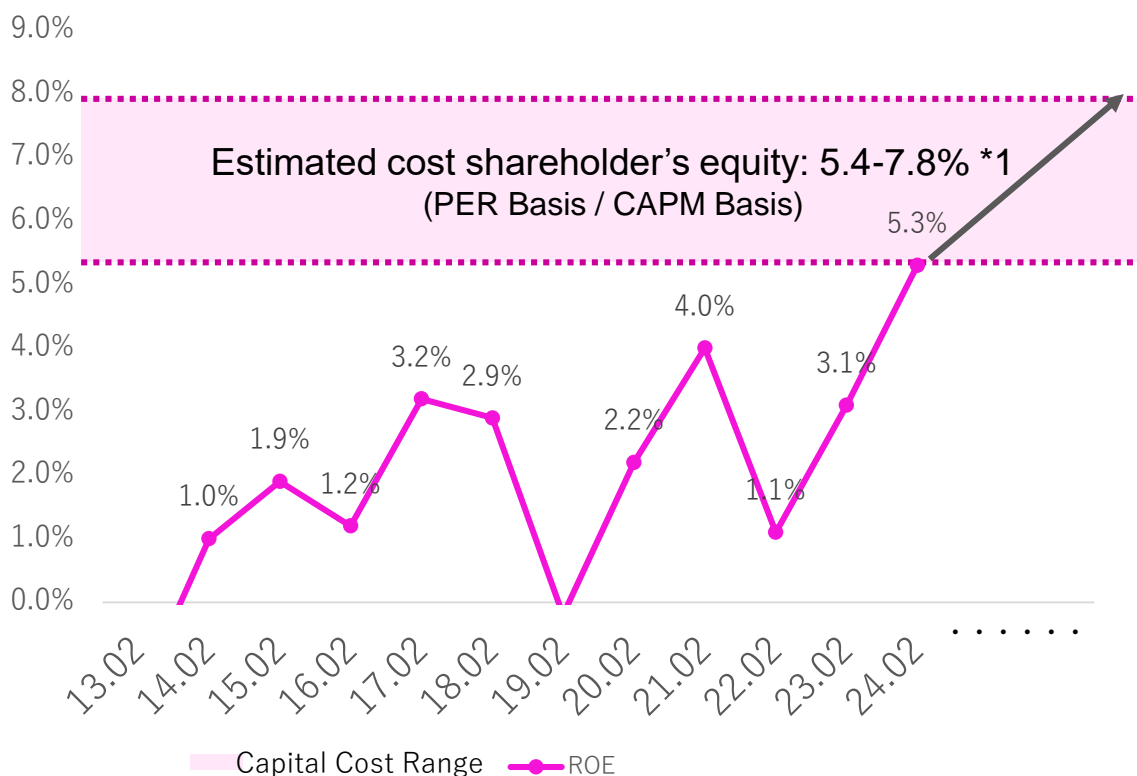
Investment in Growth		<ul style="list-style-type: none"> <li>Invest 20 billion yen over three years to expand existing brands with firm loyalties, build a new business model in the mid to low-price range including potential M&amp;A, and customer touchpoint improvement including stores and e-commerce.</li> </ul>
Infrastructure Upgrade / Efficiency Improvements		<ul style="list-style-type: none"> <li>Invest 12 billion yen over three years for assessment of existing stores (incl. potential withdrawal of underperforming store and replace them with the new store), IT infrastructure (core system, etc.) and Digital Transformation (logistics, supply chain, etc.)</li> </ul>
Shareholder Return	Dividend Payout Ratio	<ul style="list-style-type: none"> <li>Dividend payout ratio of 30%.</li> </ul>
	Treasury Shares	<ul style="list-style-type: none"> <li>Repurchase of treasury stock (10 billion yen over 3 years) to increase shareholder returns.</li> </ul>
ROE		<ul style="list-style-type: none"> <li>For individual investments, use an 8% ROE benchmark as the internal hurdle rate for decision making.</li> <li>Achieve ROE of 8% in FYE Feb 2027 through a combination of profit improvement and net assets control.</li> </ul>
DOE		<ul style="list-style-type: none"> <li>Target DOE of 4.0% for FYE Feb 2027.</li> </ul>



# Objectives of Financial Strategy & Capital Management: Achieve PBR of 1 or Greater

To achieve a PBR greater than 1.0, generate a ROE that is higher than the cost of shareholder's equity and increase the equity spread. We also strive to achieve a higher ROE by improving profits, returns to shareholders, and asset efficiency through reducing non-business assets.

**ROE transition and current cost of capital for TSI (Range)**



\* Excluding the impact of deferred tax assets

※ Calculation by Financial Institutions. \*2 Calculated based on net income at the effective tax rate without considering tax effects





# Sustainability Management





# Sustainability Management



**“We aim to brighten people's hearts through fashion and share joy with society for a brighter future.”**

TSI Group is dedicated to working with all stakeholders to create a sustainable society for future generations through our business activities, in line with our management philosophy.

More information will be available on the Sustainability Website soon.

**<https://sustainability.tsi-holdings.com/>**

Move the cursor over the chart to go to the linked page.

# Activities (as of FYE Feb 2024)



TSI's greenhouse gas emissions reduction targets have been certified by Science Based Targets (SBT).



Scored "B" (third tier from the top) in *climate change* category.

## Global Environment Conclusion of capital and business alliance with Syncom Agritech

TSI has joined forces with SynCom Agritech, a company that cultivates organic cotton with consideration for the environment and human rights.



## People Improve the "Employee Net Promoter Score (eNPS)"

Conducted once-a-year *employee satisfaction survey* to assess the level of satisfaction of each employee and reflect it in management measures.

From 2023, the survey has been expanded to entire employees under TSI Group.

## Social Efforts to foster the next generation involved in the fashion industry

To foster the next generation of fashion experts, we have launched an initiative with Bunka Fashion College such as classes with our employees as lecturers and support dressmaking by donating leftover fabrics.



## Governance Development of various policies

- ▶ Sustainability Policy
- ▶ Addition of Materiality
- ▶ Governance Policy
- ▶ Establishment of Sustainability Committee
- ▶ Environmental Policy
- ▶ Human Rights Policy
- ▶ Social Policies
- ▶ Code of Conduct for Business Partners



# TSI's Materiality and Course of Action

## Key Areas

## Materiality

## Purpose/KPI

## Key Initiative

### Global Environment

- ▶ Energy Resources
- ▶ Raw Materials
- ▶ Waste
- ▶ Water Resources
- ▶ Biodiversity

- ▶ Set CO2 Emission Reduction Targets through FYE Feb 2030 [Click here for numerical target](#)
- ▶ Promotion of Sustainable Fashion
- ▶ Paper Waste Reduction

- ▶ Innovation of Raw Materials
- ▶ Innovation of SCM Platform
- ▶ Innovation of Engagement
- ▶ Start charging for shopping bags. [Click here for details](#)

### People

- ▶ Diversity
- ▶ Health & Safety
- ▶ Employee Well-being
- ▶ Fair Labor

- ▶ Promotion of career advancement, regardless of gender
- ▶ Employment rate of persons with disabilities (at least 0.1 above the legally mandated rate.
- ▶ Improve employee satisfaction

- ▶ Launch Diversity Promotion Project [Click here for quantitative details.](#)
- ▶ eNPS Improvement Projects [Click here to see the scores](#)

### Social

- ▶ Collaboration with Local Communities
- ▶ Foster the Next Generation
- ▶ Community Services

- ▶ Promotion of engagement with local communities
- ▶ Continued efforts to foster the next generation
- ▶ Expand social work to those in need of social care

- ▶ Expand joint project with Town of Kamikawa, Hokkaido
- ▶ Lectures on design and sales knowledge at fashion institutes
- ▶ Extended support to child care facilities etc.

### Governance

Develop and maintain an open and transparent business operations system.  
Establish and consistently improve policies to increase corporate value.

- ▶ TSI Group Code of Conduct / Supplier Code of Conduct
- ▶ Supply Chain Due Diligence (Environment/Human Rights)
- ▶ Risk Management ( Implementation of ERM)

# **Our Purpose/Aim**

*We create empathy and social value across the world through the power of fashion entertainment.*

**Creator of Fashion Entertainment**

TSI HOLDINGS GROUP



# Vision: Where TSI is headed





## TSI Innovation Program 2027

This document comprises of forward-looking statements, including forecasts, outlooks, targets, and plans pertaining to the Company, its subsidiaries, and affiliates. The statements are based on the information available to the Company as of the date of this document and certain reasonable assumptions made by the Company.



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