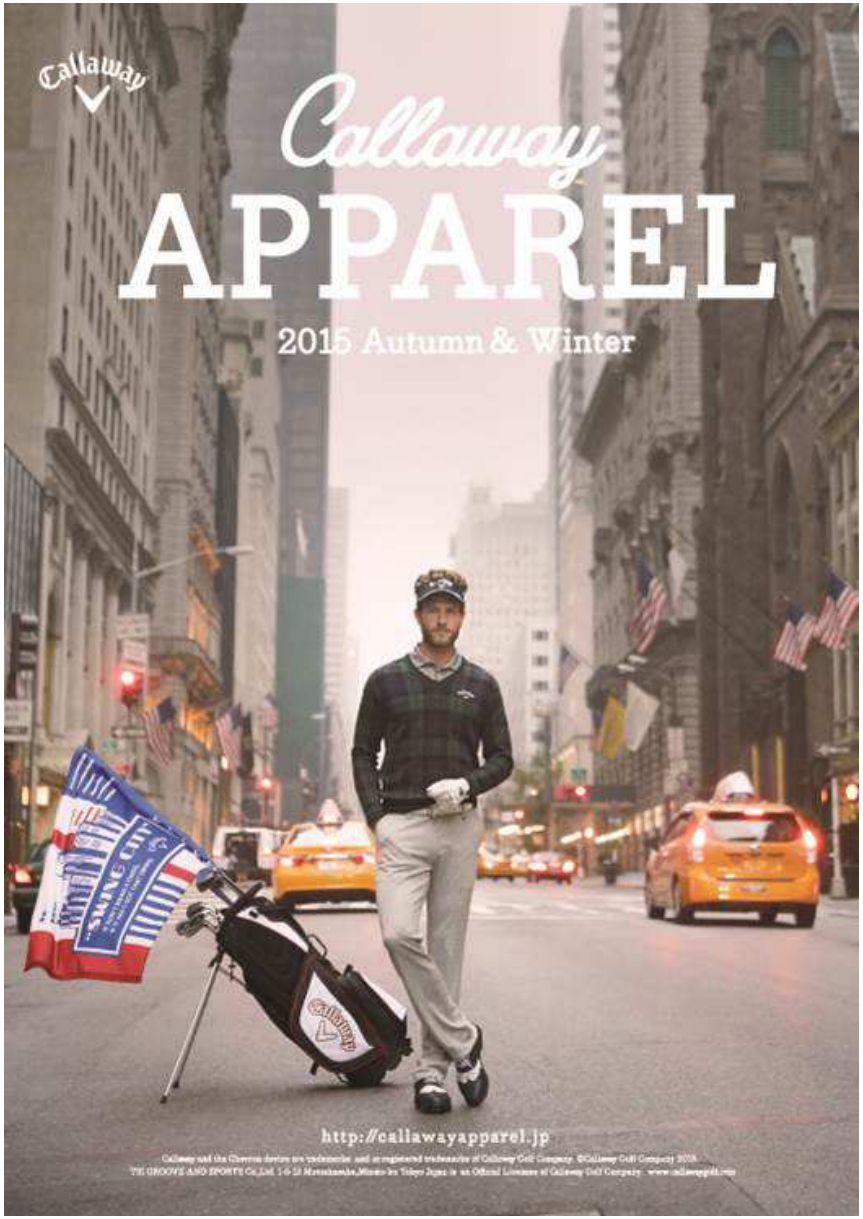
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Results Briefing: Consolidated Cumulative Q3RD (March to November 2015) Results of 2016 Ending February

2016.1.14



I. Results Overview



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Net profit was x2.4 Y/Y and EBITDA was +3.6% Y/Y

(Unit: Million Yen)

	Consolidated Cumulative Q3RD 2015 Ending Feb.		Consolidated Cumulative Q3RD 2016 Ending Feb.			
	Results	Composition Rate	Results	Composition Rate	Y/Y Change	Y/Y
Net Sales	132,640	100.0%	125,404	100.0%	-7,236	94.5%
Gross Profit	71,129	53.6%	68,106	54.3%	-3,023	95.7%
SG&A Expenses	69,034	52.0%	66,533	53.1%	-2,501	96.4%
Employment Costs	30,012	22.6%	27,894	22.2%	-2,117	92.9%
Business Strategy Costs	4,905	3.7%	4,484	3.6%	-421	91.4%
Store Rents	13,447	10.1%	13,388	10.7%	-58	99.6%
Other Expenses	16,468	12.4%	15,815	12.6%	-652	96.0%
SG&A Expenses(exc. Goodwill Amortization, Depreciation and Amortization)	64,833	48.9%	61,583	49.1%	-3,250	95.0%
Goodwill Amortization	731	0.6%	1,072	0.9%	+340	146.5%
Depreciation and Amortization	3,468	2.6%	3,877	3.1%	+408	111.8%
Operating Profit	2,095	1.6%	1,573	1.3%	-522	75.1%
Ordinary Profit	3,701	2.8%	3,033	2.4%	-667	82.0%
Extraordinary Profit	910	0.7%	5,012	4.0%	+4,101	550.3%
Extraordinary Loss	1,451	1.1%	4,773	3.8%	+3,322	329.0%
Profit Before Taxes	3,160	2.4%	3,272	2.6%	+111	103.5%
Net Profit	747	0.6%	1,783	1.4%	+1,035	238.5%
EBITDA	6,296	4.7%	6,523	5.2%	+227	103.6%

*EBITDA = Operating Profit + Goodwill Amortization + Depreciation and Amortization

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SG&A ratio and operating profit improved in Q3RD due to the structural reform in 1st half

(Unit: Million Yen)

	Consolidated Cumulative Q2ND					Q3RD(Sept.-Nov.)				
	2015 Ending Feb.		2016 Ending Feb.			2015 Ending Feb.		2016 Ending Feb.		
	Results	Composition Rate	Results	Composition Rate	Y/Y	Results	Composition Rate	Results	Composition Rate	Y/Y
Net Sales	86,593	100.0%	83,573	100.0%	96.5%	46,046	100.0%	41,831	100.0%	90.8%
Gross Profit	45,079	52.1%	44,782	53.6%	99.3%	26,050	56.6%	23,324	55.8%	89.5%
SG&A Expenses	44,760	51.7%	45,204	54.1%	101.0%	24,274	52.7%	21,328	51.0%	87.9%
Employment Costs	19,782	22.8%	19,468	23.3%	98.4%	10,230	22.2%	8,426	20.1%	82.4%
Business Strategy Costs	2,837	3.3%	2,870	3.4%	101.2%	2,068	4.5%	1,613	3.9%	78.0%
Store Rents	8,854	10.2%	8,858	10.6%	100.0%	4,593	10.0%	4,530	10.8%	98.6%
Other Expenses	10,626	12.3%	10,706	12.8%	100.8%	5,841	12.7%	5,108	12.2%	87.5%
SG&A Expenses(exc. Goodwill Amortization, Depreciation and Amortization)	42,099	48.6%	41,903	50.1%	99.5%	22,734	49.4%	19,679	47.0%	86.6%
Goodwill Amortization	456	0.5%	713	0.9%	156.4%	275	0.6%	359	0.9%	130.2%
Depreciation and Amortization	2,204	2.5%	2,587	3.1%	117.4%	1,264	2.7%	1,290	3.1%	102.1%
Operating Profit	319	0.4%	▲422	-0.5%	-	1,776	3.9%	1,995	4.8%	112.3%
EBITDA	2,980	3.4%	2,878	3.4%	96.6%	3,316	7.2%	3,644	8.7%	109.9%

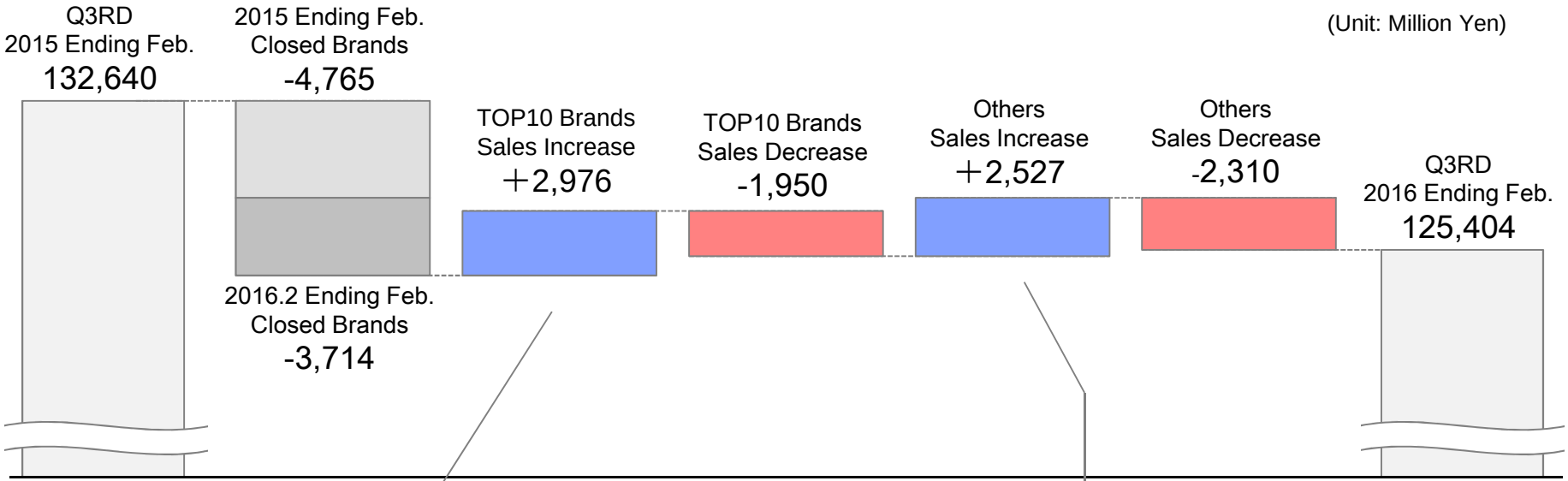
*Employment Costs = Personnel Expenses + Subcontract Costs + Sales Commission
*Business Strategic Costs = Advertising and Sales Promotion Expenses
*EBITDA = Operating Profit + Goodwill Amortization + Depreciation and Amortization

***Following negative impacts (approx. -410 million yen) to gross profit occurred in Q3RD: 1. The standard of inventory valuation loss reserves have been changed (approx. -300 million yen), and 2. Inventory valuation loss from brands withdrawal(approx. -120 million yen). Gross profit margins excluding these are 56.7% for Q3RD and 54.6% for consolidated cumulative Q3RD. Operating profits are approx. 2,400 million yen and 2,000 million yen respectively.**

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Net sales excluding withdrew businesses marked positive growth

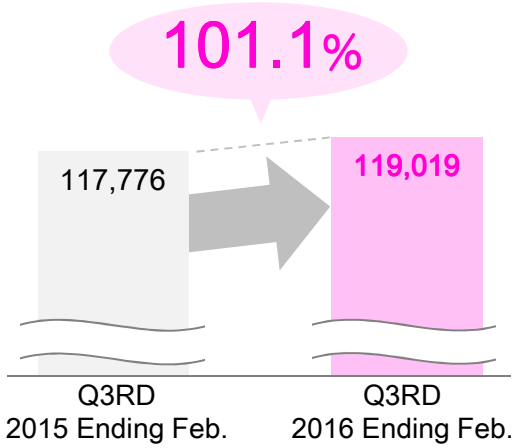
(Unit: Million Yen)



- **MARGARET HOWELL**(Shop# 98(Y/Y+18))
- **PEARLY GATES**(Shop# 67 (Y/Y+17))
- **STUSSY**(Shop# 53(Y/Y ＋7))
- **Callaway Apparel**(Shop# 21(Y/Y ＋8))
- **Free's Mart**(Shop# 41(Y/Y ＋10))
- **HUMAN WOMAN**(Shop# 83(Y/Y ＋12))

- **m.tsubomi**(Shop# 118(Y/Y+12))
- **JILL by JILLSTUART**(Shop# 24(Y/Y ＋8))
- **ANGLOBAL SHOP**(Shop# 30(Y/Y ＋2))
- **DIANE von FURSTENBERG** (Shop# 20(Y/Y ＋6))
- **UNDEFEATED**(Shop# 5(Y/Y ＋3))
- **Jack Bunny!!** (Shop# 9(Y/Y ＋2))
- **Mystrada**(Shop# 6(Y/Y ＋6))
- **TODD SNYDER**(Shop# 3(Y/Y ＋2))
- **Dice&Dice**(Shop# 2(Y/Y ＋2))
- **STYLE TOKYO friends' home** (Shop# 1(Y/Y ＋1))
- **ZIO BERNARDO**(Shop# 1(Y/Y ＋1))

Continuing Brands Comparison



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Gross profit ratio improved as well

(Unit: Million Yen)

Brand	Consolidated Cumulative Q3RD 2015 Ending Feb. Sales	Composition	Gross Profit Ratio	Consolidated Cumulative Q3RD 2016 Ending Feb. Sales	Composition	Gross Profit Ratio	Y/Y Sales	Gross Profit Ratio
1 nano・universe	17,447	13.2%	56.0%	16,663	13.3%	58.0%	95.5%	+2.0pt
2 NATURAL BEAUTY BASIC	12,373	9.3%	58.4%	11,973	9.5%	59.3%	96.8%	+0.9pt
3 MARGARET HOWELL	9,096	6.9%	54.5%	9,702	7.7%	55.4%	106.7%	+1.0pt
4 ROSE BUD	8,365	6.3%	47.2%	8,049	6.4%	49.2%	96.2%	+2.0pt
5 PEARLY GATES	6,114	4.6%	57.5%	6,798	5.4%	54.2%	111.2%	-3.3pt
6 STUSSY	3,786	2.9%	65.1%	4,321	3.4%	66.3%	114.1%	+1.1pt
7 Callaway Apparel	3,663	2.8%	36.7%	4,151	3.3%	41.8%	113.3%	+5.0pt
8 Free's Mart	3,292	2.5%	53.7%	3,807	3.0%	56.0%	115.6%	+2.4pt
9 & by P&D	4,252	3.2%	54.3%	3,801	3.0%	54.0%	89.4%	-0.3pt
10 HUMAN WOMAN	3,633	2.7%	45.9%	3,781	3.0%	49.8%	104.1%	+3.9pt
TOP10 Brands	72,025	54.3%	54.1%	73,051	58.3%	55.4%	101.4%	+1.3pt
Others Brands	45,750	34.5%	55.7%	45,967	36.7%	55.8%	100.5%	+0.1pt
Continuing Brands Total	117,776	88.8%	54.7%	119,019	89.7%	55.6%	101.1%	+0.8pt
Closed Brands	14,864	11.2%	44.7%	6,384	5.1%	31.0%	43.0%	-13.7pt
TOTAL	132,640	100.0%	53.6%	125,404	100.0%	54.3%	94.5%	+0.7pt

*Net sales of ROSE BUD is consolidated sales of ROSE BUD CO., LTD. and Elephant Co., Ltd.

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Reckoned with current sales trend, revised down the sales, operating profit and ordinary profit, but revised up the net income due to the plan of selling additional assets in Q4TH.

(Unit: Million Yen)

	FY2015 Ending Feb.	FY2016 Ending Feb.					
		Original	Revised	Against FY2015 Ending Feb.		Against Original Forecast	
	Results	Forecast	Forecast	Difference	%	Difference	%
Net Sales	180,819	170,000	167,000	-13,819	92.4%	-3,000	98.2%
Operating Profit	924	2,400	1,200	+275	129.7%	-1,200	50.0%
Ordinary Profit	2,627	4,000	2,800	+173	106.6%	-1,200	70.0%
Net Income	2,294	1,400	2,900	+605	126.4%	+1,500	207.1%

*The original forecast represents the business results forecast released on October 14, 2015

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II. Progress of Future Growth Strategy



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Summary and Update of Growth Strategies

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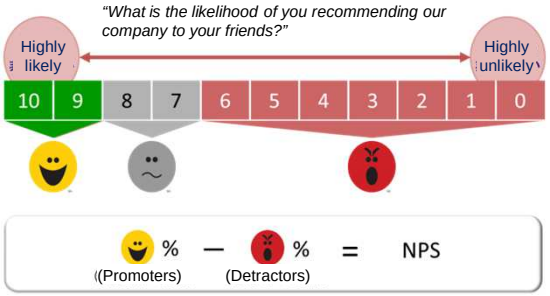
	Overview of measures	Update as of now
Customer/ Sales	**Introduction of customer NPS, eNPS, and PDCA**	• Introduced to **98 stores** and achieved **+3 p.p. to 8 p.p.** budget achievement rate compared to stores, to which it was not introduced. Sales staff's motivation measures have also been enhanced
Price	**Price strategy based on scientific analyses** (Optimization of price setting, proper sale rate, items per customer)	• Among the 31 existing major brands, **18 brands are implementing the correct price strategy in Q3RD, which is 50% more than the 12 brands during the first half.**
Product	**Refine products' "appealing points" and limit the number of styles**	• **12 brands** among the existing major brands **have successfully reduced the number of styles** • The number of models has **reduced by approximately 10%**
Place	**Store opening policy through centralization of contacts with major developers**	• **58 stores for 21 brands** opened in Q3RD. Stores were opened with good conditions through the collective efforts of the TSI Group
Promotion	**Investment in digital promotion**	• Drastic shift from paper media to **digital promotion**. Currently enhancing relationship with **Google**
Brand Portfolio	**Determination of the maximum growth potential of each brand**	• Holdings leads the growth strategies for **brands with more potential to grow** and **M&A etc. to fill in gaps** in the portfolio
EC/ Digital	**E-Commerce enhancement and partnership to introduce digital technologies**	• **E-commerce ratio** has grown to **10.8%**. Considering partnership with European and U.S. companies with the **latest digital technologies**, such as Intel and SFDC
Overseas/ M&A	**Carefully selected M&A based on trustworthy value evaluation**	• Negotiating domestic/overseas M&A (**apparel/natural cosmetics**), partnership with a **Chinese apparel company**, and partnership with **domestic beauty industry**.
Cost	**Purchasing at market's best prices**	• Completed the careful review of **118 items**, expecting reduction of **850 million yen in this FY**. Will reflect **2 billion yen** reduction on the budget of the **next FY**.
SCM	**Rationalization of logistics and optimization of cost** (Concentration of warehouses, direct trading, optimization of the margin for trading companies, overseas inspections/assortment of products)	• Each company is steadily promoting the efforts to **achieve the 1 billion yen reduction** in the FY2018 ending Feb. The **direct trading rate** is expected to land at **13.3% at the end of this FY** (FY2015 was 11.3%)
Process	**Create added values through simple operation processes**	• **Reduction of opportunity losses/lost profits** by enhancing the accuracy of demand forecast, production, and distribution by **sophisticating planning/creation** and **BPR**

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NPS Project is being steadily promoted and will accelerate its implement in all brands

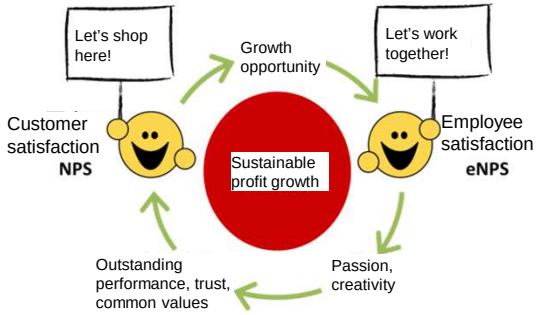
Customer NPS

- Measure customers' loyalty toward the brand **(Already studied with 1,414 customers in 24 stores)**
- Listen to customers' real voices and clarify the improvement actions in terms of customer services and products (start/stop/continue)
- Improve customers' lifetime values by increasing promoters and reducing detractors



eNPS

- Measure the loyalty of store managers/sales staff toward working for the brand **(Already studied with 1,348 employees in 251 stores of 6 brands)**
- Formulation of specific proposals to improve training, incentives, and motivation
- Continuously expand profits through the improvement of both customer NPS and eNPS



PDCA

- ①Store performance of day/time of day
  ②Best practices in the field
  ③Enhance the "visualization" of actions and leverage store performance in an organizational manner **(Already introduced to 98 stores of 6 brands)**
- Sophisticate the quality and quantity of communication between store managers and SVs and swiftly improve store performance **(Increase the number of SVs by 1.5 times)**

- 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"

Financial result

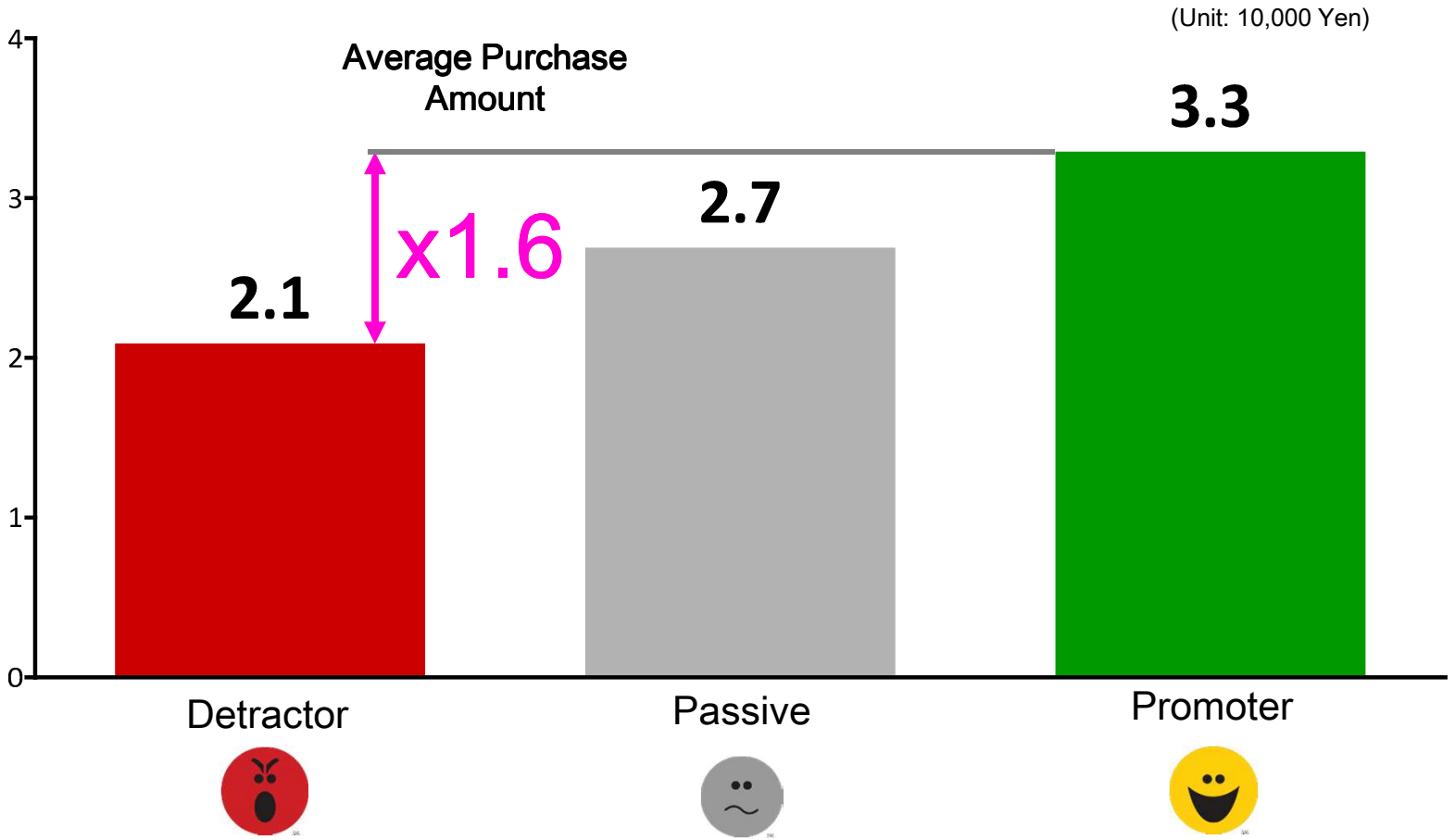
Store to which the project are introduced have improved the performance by 3 p.p. to 8 p.p. in terms of the budget achievement rate

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Lifetime value of a customer increases through increasing number of promoters and reducing that of detractors

CUSTOMER NPS

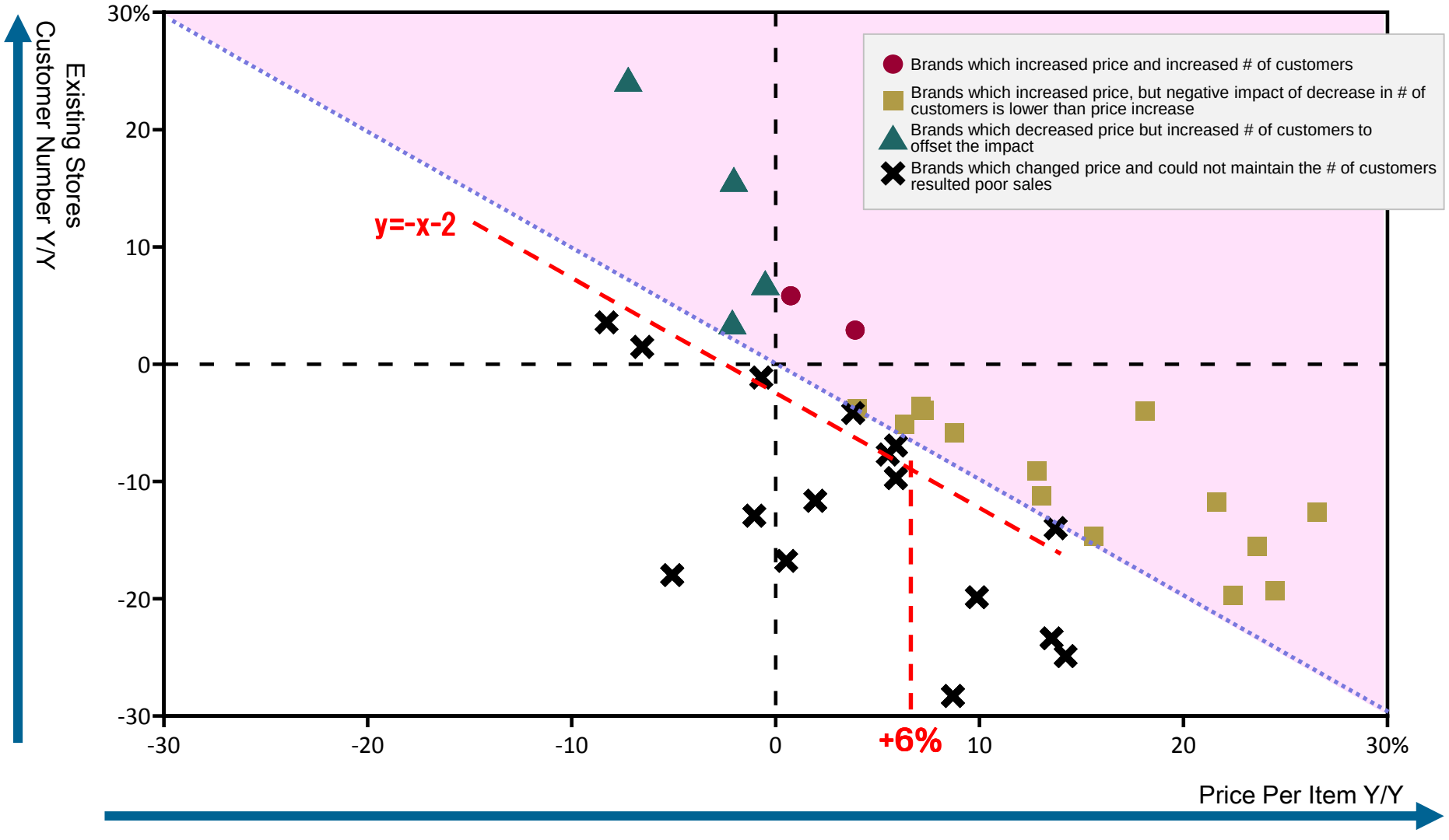
Average purchase amount of Natural Beauty Basic by promoters, passives and detractors



Customer NPS Survey conducted at 24 stores in Nov. 2015: Aeon Okazaki, HEP FIVE, iias Tsukuba, Kuzuha Mall, Tama Plaza Terrace, Diarmor Osaka, Yokohama JOINUS, Kichijoji PARCO, Keihan Department Store, Kyoto CUBE, Sapporo Aurora Town, Sannomiya OPA, Myroad Shinjuku, Nishinomiya Gardens, Sendai S-PAL, Lumine Omiya, Lumine Ofuna, Machida Tokyu Twins, Tennoji MIO, Tenjin, NAMBACITY, Kashiwa Station Mall, Akashi VIVRE, Granduo Tachikawa

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18 brands implemented the correct pricing strategy in Q3RD(12 brands in Q2ND)



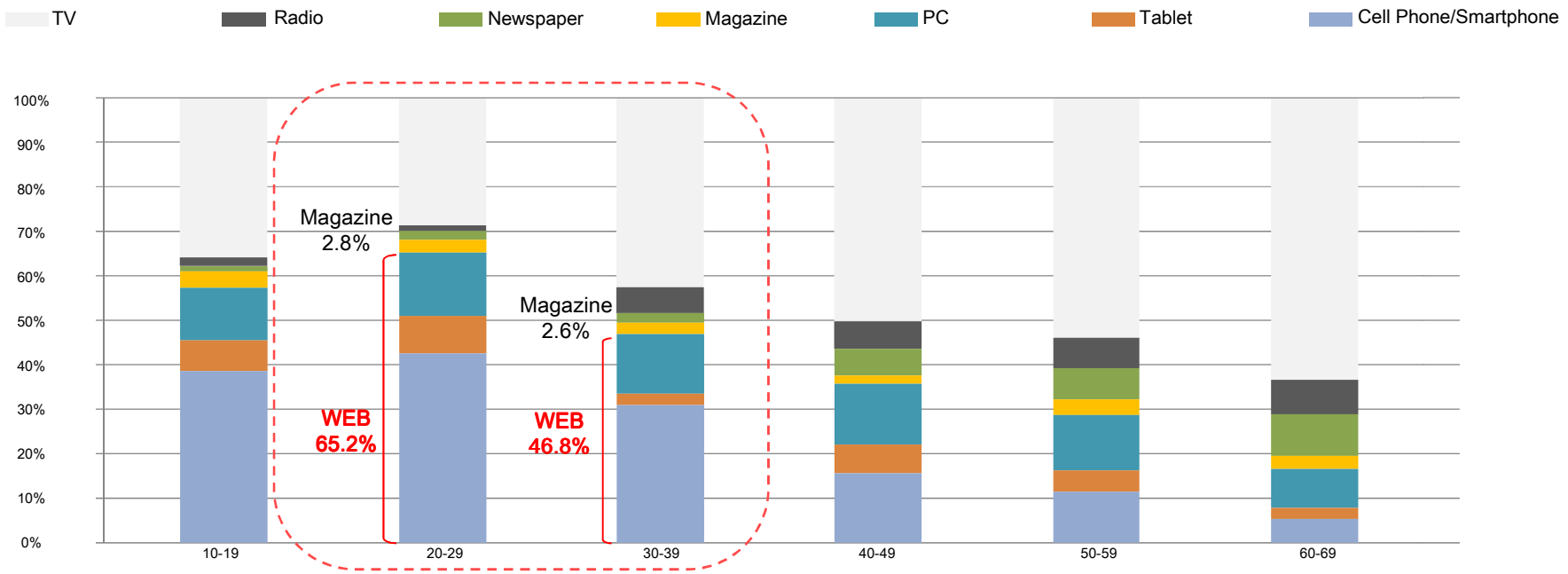
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Despite the fact that promotion media is shifting from paper to digital, TSI's has been concentrating on paper based promotion

WEB media contact time continues to increase

Transition of Media contact time proportion from 2010 through 2015: magazine -2%, WEB +15%. Women from age 20-30, the target volume zone of TSI, have longer contact time of WEB and shorter contact time of magazine.

Survey of Media Contact Time by female age



Shift promotion media from paper to digital to **increase brand's touch points with women from age 20-30**

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Investments in “digital” and “sales field” by optimizing the “procurement cost”

Result of the Procurement Project

- We broke down the overall cost (including paper media) into 118 cases, closely reviewed unit prices, and clarified the appropriate expenditures compared to competitors’ standards and social standards
- As soon as the analysis was completed, we began promoting unit price negotiations and appropriating expenditures (ongoing)

Result

- Q3RD: Reduced 400 million yen
- This term: Expecting to reduce 850 million yen
- Next term: Planning to reflect 2 billion yen reduction on the budget
  (Amount is in comparison to FY2015 Ending Feb.)

Investment in digital

Google

- We have acquired an account with Google and are conducting direct business dealings (ongoing)
  - Prioritized introduction of Google’s latest advertisement products
  - Early utilization of the Big Data analysis report
  - Unification of global digital advertisements

SNS

- Introduction of marketing automation (ongoing)
- Increase the digital promotion budget to competitors’ best practice standard

Investment in the sales field

<Examples of initiatives by each brand>

Improvement of working conditions

- Improvement of the first wage
- Improvement of conditions for subs

Enhancement of clarity in incentives

- Increase in bonus of well-performing staff
- Enhancement of rewards for stores that achieved the budget
- Rewards for stores with improved NPS

Other

- Enhancement of various award systems
- Enhancement of employee sales and rental clothes systems
- Leveraging of stores with poor eNPS
- Increase in SVs

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Convergence: Majority is Google, Fan is Social Media

Google — The world's largest search engine which provides various services to individuals to businesses

Facebook Group — The world's largest social media which reached the milestone of 10 billion users in a single day in 2015

Success in digital advertisement hinges upon how effectively we work with these Big 2

Ranking of Search Engine Share by Country

Search Engine Share by Country(As of August 2015)									
(%)	ALL	JAPAN	US	AFRICA	ASIA	EU	NA	OCEANIA	SA
Google	89.26	61.12	79.06	94.16	90.77	90.78	81.81	92.73	94.64
bing	3.45	5.67	8.9	2.51	1.23	3.5	7.99	5.34	2.24
Yahoo!	3.36	32.57	9.7	1.92	1.92	2.05	8.17	0.94	2.32
YANDEX	-	-	-	-	-	1.74	-	-	-
AOL	-	-	0.84	-	-	-	0.64	-	-
Baidu	0.89	0.2	-	-	2.13	-	-	-	-
Naver	-	-	-	-	0.57	-	-	-	-
Ask Jeeves	0.49	0.12	0.43	1.08	-	0.32	0.45	0.19	0.65

*Research by StatCounter

Japan

Yahoo Japan adopted the search engine algorithm of Google from 2010
>>Domestic share is virtually 94%

Asia

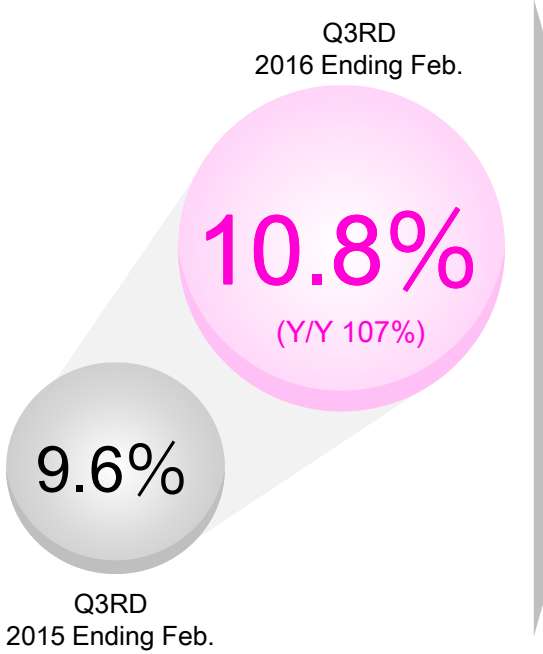
Google has no competitor in the region
>>Asian share is 94%

It is clearly apparent that in both brick-and-mortar shop and digital,
Google is the search engine where TSI must reinforce digital advertisement

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Almost all brands' O2O sites are now on the table, developing smartphone apps to meet the needs in "Smartphone First" era

E-commerce Ratio



Actions to strengthen own E-Commerce

4 brands newly opened O2O sites

Free's Mart / JILLSTUART / N. (Natural Beauty Basic) / Zio Bernardo

Transition of # of own E-commerce sites

2015 Ending Feb.	Q3RD 2016 Ending Feb.	Next April Estimate
11	20	31

>>Own E-commerce grew 129% Y/Y

Development of brands' smartphone apps (Integrate functions of E-commerce, shop search and points)

Actions to strengthen 3rd party E-Commerce

Brands started in ZOZOTOWN continues to mark healthy growth

NATURAL BEAUTY BASIC / PINKY&DIANNE / PROPORTION BODY DRESSING / HUMAN WOMAN / NATURAL BEAUTY / BOSCH / & by P&D

>>3rd party E-commerce grew 103% Y/Y

Completed the system affiliation with i LUMINE

Expansion of E-commerce Business Abroad

Free's Mart is the first Japanese brand launched in Zalora, an E-commerce site in SEA which is famous among younger generation

Free's Mart → ZALORA (ASIA'S LEADING ONLINE FASHION DESTINATION) → South-East Asia

Expansion of business in Asian market through establishing multilingual(English, Chinese, Japanese) E-Commerce sites

PEARLY GATES / JILLSTUART / ADORE → Multilingual E-Commerce Websites → Greater China / South-East Asia

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

Business Partner	DBJ	The state-on bank which is 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 know-how and network from track records of investing companies with medium- to long-term growth potential, TSI's M&A and oversea development is underway.

Core Apparel ⟷ **Affiliated Businesses**

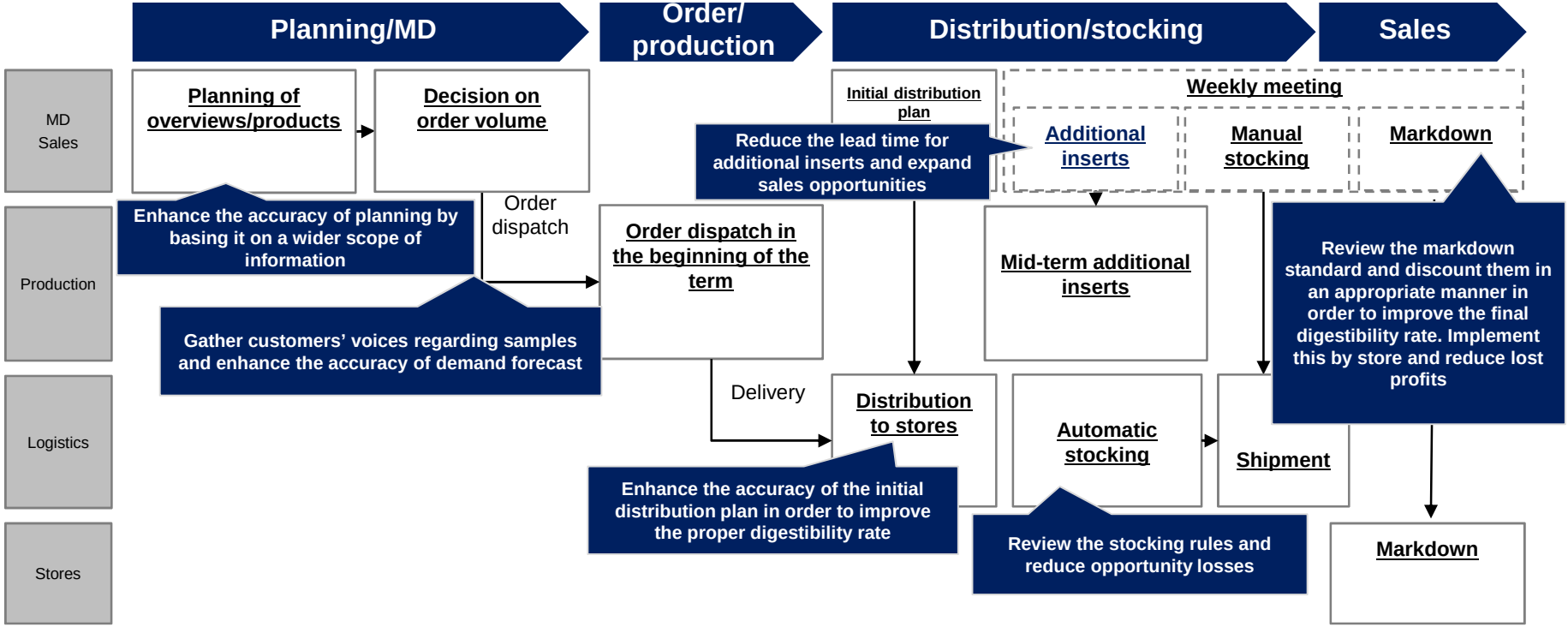
■ M&A of domestic Apparel ■ Complement the blank area of TSI's brands portfolio	■ Partnership and joint venture with major Chinese apparel companies ■ Foray into China's accessible luxury and middle-range market	■ M&A of natural cosmetic companies ■ Bring stable businesses that are not easily affected 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.

Negotiations of M&A and business partnership are underway

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Enhance the accuracy of planning, demand forecast, production, and distribution by sophisticating processes

Enhancement of planning/ creation	Start establishing an internal process to analyze social trends, translate them into fashion trends, and reflect them on actual manufacturing as well as inviting external specialists
Implementation of BPR (Business process re-engineering)	Fundamentally review the business process and standardize/streamline the way to work, which is highly dependent on people, while respecting the difference in necessary tasks for each brand/business characteristic



- **Minimize "sales opportunity losses" and reduce "lost profits" based on scientific analyses**
- **Also consider optimizing the proper sales measures during sales seasons and MD policies that are not easily affected by weather**

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Increase ROE by improving capital efficiency and
seek further fulfillment of shareholder return policy

Efficient Use of Capital	Consolidated capital of TSI Holdings to seek efficiency of payment operation ->e.g. Cash Management Service etc.
Efficient Use of Investment Securities	Clearly demonstrate the holding policy of investment securities by setting out the corporate governance code
Buy Back Shares	Announcement of share buy-back on Nov. 10, 2015 4,000,000 stocks and 4 billion yen as the limit, acquired stocks from Nov. 11, 2015 through Jan. 12, 2016. 【Acquisition Status as of Jan. 12, 2016】 4,000,000 stocks with 3,382,139,900 yen
Shareholder Return Policy	Continue the stable dividend and discuss further shareholder return plans from multiple perspectives

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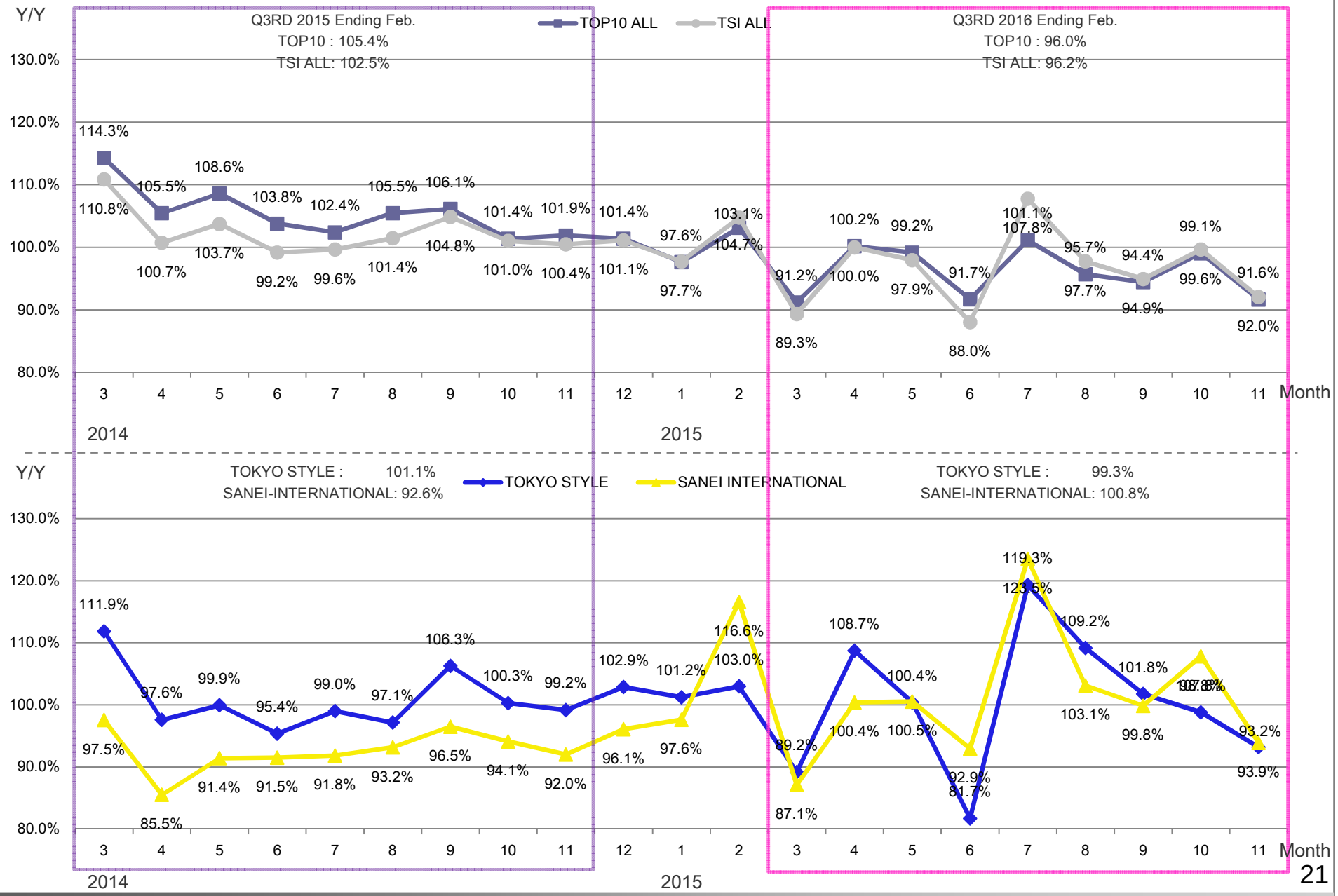
III. Reference Data



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Domestic Comparable-Store Sales Rate

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(Unit: Million Yen)

	Consolidated Cumulative Q3RD 2015 Ending Feb.		Consolidated Cumulative Q3RD 2016 Ending Feb.			
	Results	Composition Rate	Results	Y/Y	Composition Rate	Composition Rate Y/Y Change
Department Stores	35,409	26.7%	30,186	85.2%	24.1%	-2.6pt
Commercial Facilities	63,648	48.0%	61,554	96.7%	49.1%	+1.1pt
E-Commerce	12,672	9.6%	13,583	107.2%	10.8%	+1.2pt
Overseas	7,689	5.8%	7,927	103.1%	6.3%	+0.5pt
Others	13,220	10.0%	12,152	91.9%	9.7%	-0.3pt
Total	132,640	100.0%	125,404	94.5%	100.0%	-

*1 Fashion buildings, shopping centers, railroad station buildings, individual stores, outlet shops etc. except for department stores
*2 Apparel businesses such as wholesale, in-company sales and non-apparel businesses of the group companies

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		Q3RD 2015 Ending Feb.	Q2ND 2016 Ending Feb.	Store Open	Store Close	Q3RD 2016 Ending Feb.
Domestic	# of Stores	1,791	1,362	48	9	1,401
	Change	+ 26	▲ 261			+ 39
Overseas	# of Stores	220	225	10	7	228
	Change	▲ 11	▲ 5			+ 3
Total	# of Stores	2,011	1,587	58	16	1,629
	Change	+ 15	▲ 266			+ 42

*Number indicated on "Change" rows are comparison with its previous quarter

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- The amounts given in this material are rounded down to the nearest million yen
- The forecast performance for TSI Holdings indicated in this material is based on the assessments/assumptions from the information available as of this material's date. Actual performance may differ depending on various factors.

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