TSI HOLDINGS

# Medium-Term Management Plan
# From 2017 to 2019 Ending February

2016.4.15

# VISION



## BECOME THE LEADING APPAREL COMPANY IN ASIA

- Go beyond the conventional framework
- Fun
- From Japan to world, from world to Japan
- Value employees, customers and business partners




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**TSI at present**

**2016 Ending Feb.** | **2017 Ending Feb.** | **2018 Ending Feb.** | **2019 Ending Feb.**

## Enhancement of Profitability Basis

**Short-term profitability structural reform**

- Withdrawal of unprofitable businesses and closure of brands
- Rationalization of procurement

**Management Discipline**

- **Complete PDCA**: Strict budget control with “Golden Rule” and ”Landing the helicopter”, Detailed quarterly review with subsidiaries

**Highly Developed Operation**

- **Introduction of NPS**: High quality customer experience through NPS, eNPS and PDCA
- **Implementation of BPR**: Reduction of opportunity loss and lost profits by improving operation
- **Streamlining SCM**: warehouse consolidation, direct trading, overseas inspection/assort and optimization of the margin for trading companies
- **Unified Core System**: introduction of the core system to all subsidiaries

## Acceleration of Growth Strategy

**Strategic Investment for Growth**

- **Digital**: Omni-channeling, investment to digital marketing and IoT of stores to utilize big data
- **Overseas**: Cross-boarder E-commerce, partnership with Chinese apparel companies, acceleration of overseas business in South East Asia(SEA), Discussion of International M&A
- **Affiliated Businesses Creating Synergy to the Core Apparel**: Establish a new business model from combination of fashion and beauty
- **Brand Portfolio Management**: Evaluate each brand’s maximum growth potential and carefully select M&A to fill in blank spaces in the portfolio
- **Reinforcement of MD and Creation**: Establishment of “Fashion Marketing Office” and actions to find next generation seeds




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## Market

- Women's apparel industry will gradually decrease 0.5% per annum(excl. E-commerce)
- The middle price range market, where TSI's main battlefield, will decrease 2% per annum(excl. E-Commerce)
- Apparel E-Commerce market will grow 9% annually up to 2020
- Headwind of exterior environment is stronger than expected
- Widening gap of win and lose within commercial facilities, and severe competition of limited pie

## Competitor

- Major apparel companies are implementing corporate restructure
- Mid-class companies are advancing and achieving high ROE through highly developed operation and management theory
- Mid- small- brands with unique and sole concepts are maintaining steady growth, but overall industry is becoming homogeneous

## Customer

- Consumer apparel expenditure will be decreasing 1% per annum
- Consuming trend is changing due to users "self-editing ability"
- Trends are becoming shorter and smaller
- "Smartphone first", spending of smartphone is increasing (3% growth annually over past 10 yrs.)

## Basic Principles

- **Reinforce Business infrastructure of Existing Businesses**: concentration of investment to existing businesses and continue reinforcement its business infrastructure
- **Strategic Investment for Growth**: Acceleration of investment to E-Commerce, overseas and M&A, actions to find next generation seeds
- Build businesses and brand portfolio which **correspond to exterior environmental changes**
- Determination based on fact(numerical) and analysis, and establishment of **reasonable operation basis**



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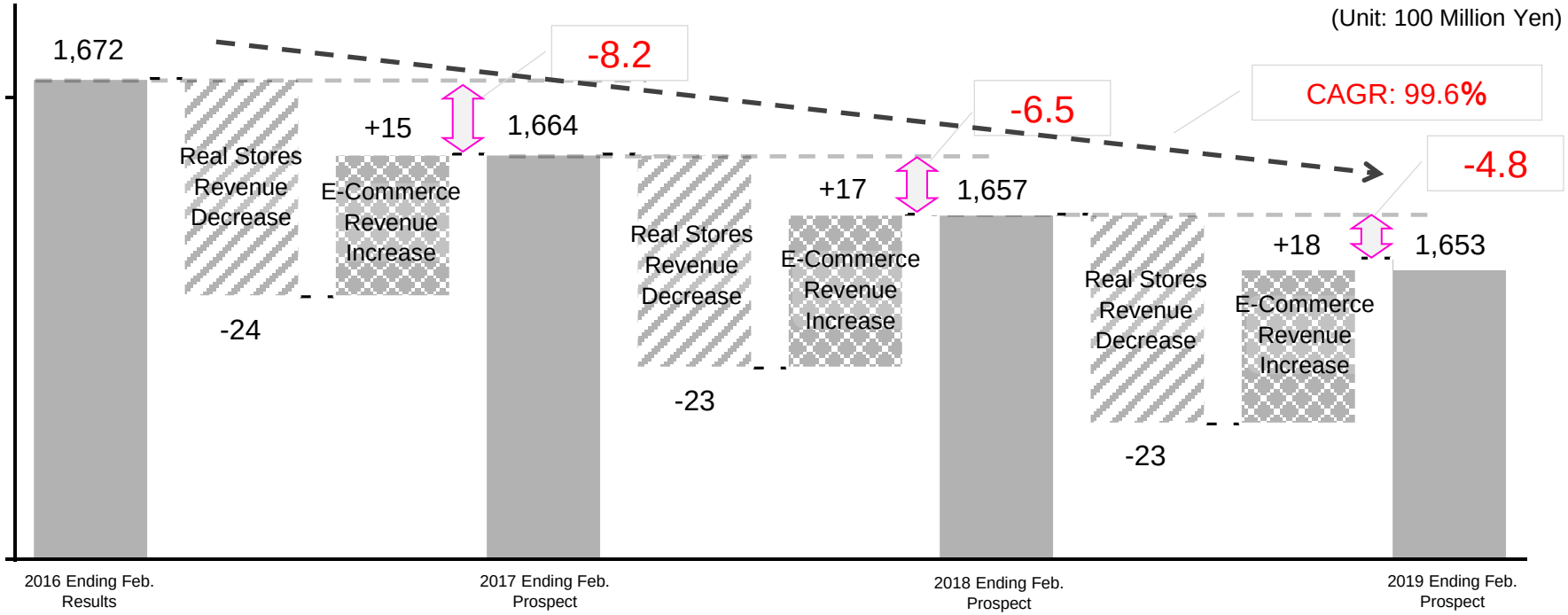
CAGR prospect of middle-price range ladies apparel market up to 2018

| | |
|---|---|
| **Real Stores** | 98% |
| **E-Commerce** | 108% |

Given the market growth prospect and apply it to TSI's sales channels,
TSI's CAGR is 99.6%




2017 Ending Feb. budget for continuing brands are 104.8% Y/Y
mainly through growth of E-commerce business and opening of new stores



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| | Direction of Each Measures |
|---|---|
| Customer/ Sales | Introduction of customer NPS, eNPS and PDCA |
| Price | Price strategy based on scientific analysis<br>(Optimization of price setting, proper sale rate, discount rate and items per customer) |
| Product | Reinforcement of MD and creation, Refine products' appealing points and limit # of styles |
| Place | Centralization of contacts with major facility developers |
| Promotion | Accelerate investment to digital marketing |
| Brand Portfolio | Evaluation of the maximum growth potential of brands, actions to find next generation seeds |
| EC/ Digital | Omni-channeling, investment to digital marketing and IoT of stores to utilize big data |
| Overseas/ M&A | M&A and partnership based on trustworthy value evaluation<br>(Domestic apparel, natural cosmetics, M&A of skincare brands, partnership with Chinese apparel etc.) |
| Cost | Purchasing at market's best price |
| SCM | Rationalization of logistics and optimization of cost<br>(Concentration of warehouses, direct trading, optimization of margin for trading companies, overseas inspections/assortment of product) |
| Process | Initiation of BPR(Business Process Re-engineering) |
| Discipline | Strict decision-making standard to withdraw low profitable businesses and implementation of management discipline |




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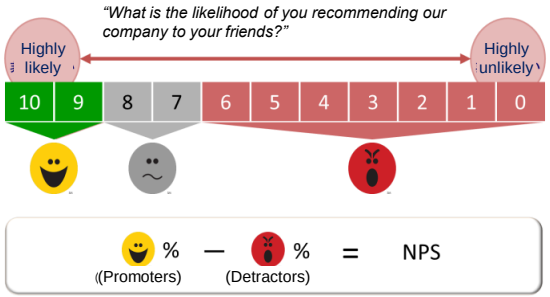
# Introduction and Implementation of NPS to all brands are expanding

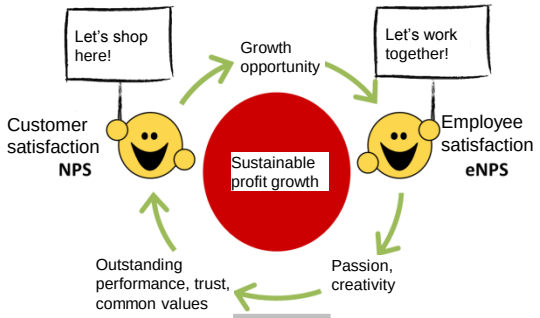
## Customer NPS

- Measure customers' loyalty toward the brands **(Already studied with 9,611 customers of 260 stores of all brands in SANEI bd, 3,954 customers of HUMAN WOMAN in SANEI-INTERNATIONAL is being studied)**
- Listen to customers' real voices and clarify the improvement actions in terms of customer service and products（start/stop/continue）**(already conducted workshop at 151 stores of all brands in SANEI bd, 4 HUMAN WOMAN stores in SANEI-INTERNATIONAL)**
- Improve customers' lifetime values by increasing promoters and reducing detractors




## eNPS

- Measure the loyalty of store managers/staff toward working for the brand **(Already studied with 1,348 employees of 251 stores of all brands in SANEI bd, 398 employees of 102 stores in ANGLOBAL, 257 employees of 67 HUMAN WOMAN stores in SANE-INTERNATIONAL)**
- 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 at stores
  ③Enhance the "visualization" of actions and leverage store performance in organizational manner **(Already introduced to 280 stores of all brands in SANEI bd, 14 HUMAN WOMAN stores in SANEI-INTERNATIONAL)**
- Sophisticate the quality and quantity of communication between store managers and Supervisors, to swiftly improve store performance**(Increased the number of Supervisors by 1.5x in SANEI bd)**

- 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 Results**

**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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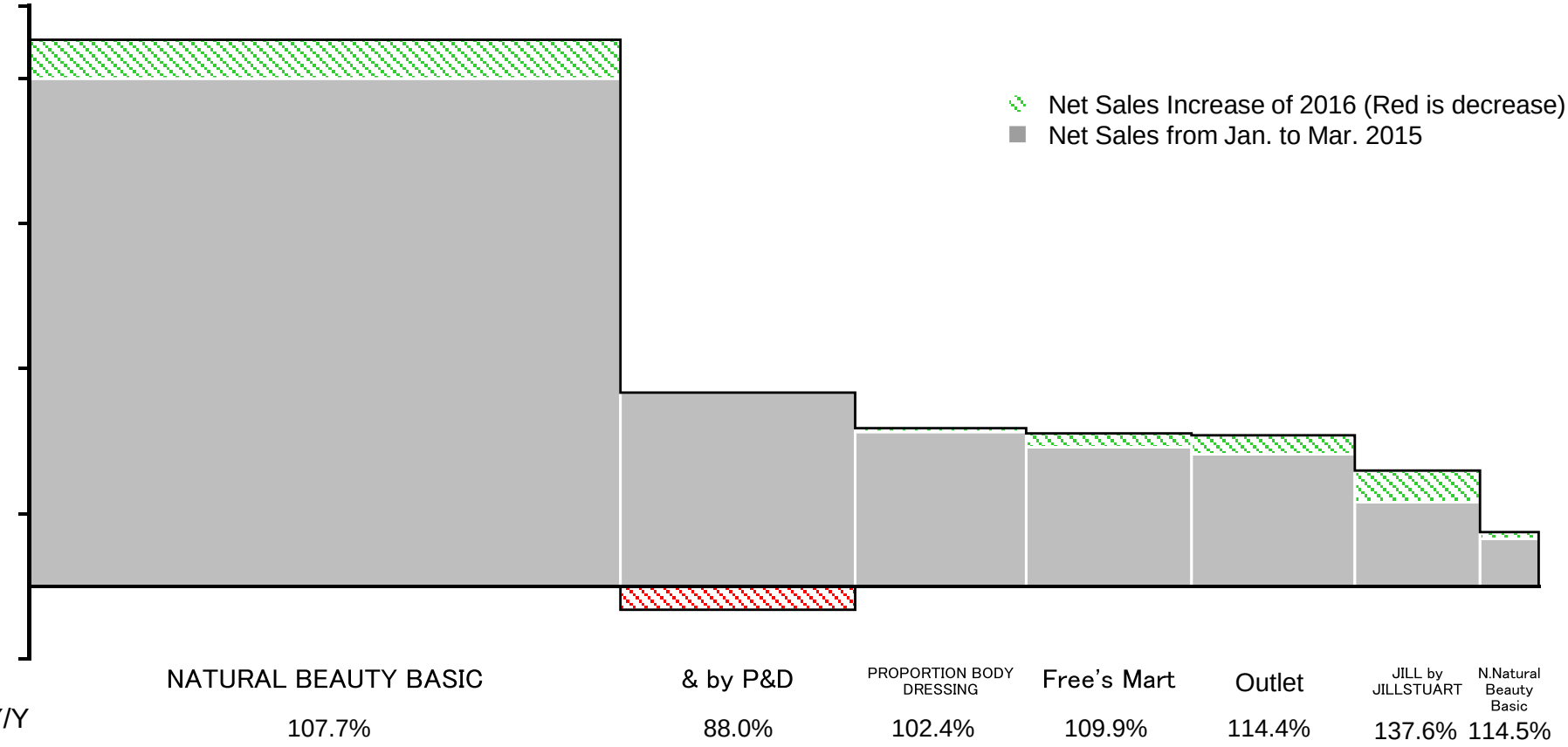
## Revenue of SANEI bd, a subsidiary fully implementing NPS, has been improving healthily

### Comparison of net sales from Jan. to Mar. 2016 Y/Y




*Brands are lined up by amount of net sales
*Y/Y of brands are calculated by comparison with previous year's all-store sales(incl. E-commerce)

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## Start the internal process to analyze social trends, translate them into fashion trends, and reflect them on actual manufacturing

**2017 Ending February**

| Q1ST (Mar, Apr, May) | Q2ND (Jun, Jul, Aug) | Q3RD (Sep, Oct, Nov) | Q4TH (Dec, Jan, Feb) |
|---|---|---|---|
| 16FW/pt.2 | 17SS/pt.1 | 17SS/pt.2 | 17FW/pt.1 |

### 1. Current Social Trend

- Domestic and International: Politics/Economics/Environment/Topics
- What our customers are thinking and feeling in such society?
- Transition of Japan's real fashion and its present
- What is the "feeling of time" of 2016FW?

### 2. Organize Fashion Trend of 2016FW

- Image visuals to demonstrate "feeling of time", (4 fashion moods and factors)
- Color and material trends
- Bestselling analysis
- Characteristics and points for fresh items, materials, patterns, details, silhouettes and colors
- Relationship between 4 factors of "feeling of time" and 3 scenes (Collection, International and domestic street style)

### 3. Seeds of 2017SS

- Social trend topics, color and material trends, hints and moods

**FORMULA: "Customers' feeling" x "General Trends" = Desired Manufacturing of Each Brand**




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# “Smartphone First” + “Omni-Channeling” + “Personalize” + “Globalize” + “IoT”

## Omni-channeling Strategy through Smartphone App

**Will complete launching O2O sites of all brands by 1ST half, start releasing smartphone apps of brands with point managing function by 2017 Ending Feb.**

yappli predictspring

As the 2nd stage of the omni-channeling strategy, TSI will accelerate the release of latest smartphone apps of each brand, important touching points with customers, to expand mobile E-Commerce

## One to One Personalization

**Connection between Social Media and E-Commerce**

olapic

The first company to introduce a platform of “User Generated Contents”, where it can allow E-commerce sites to connect contents created by customers’ Social Media.

**Marketing Automation**

salesforce KARTE

Automate attraction of brands’ apps and deploy cross-channel approaches to match characteristics of consumers using social media

## Globalization = Cross-Border E-Commerce

**Gradual opening of fully-owned and 3rd party E-commerce sites for pilot brands as cross-border E-Commerce strategy**

demandware move faster, grow faster　天猫 TMALL.COM　ZALORA

Released E-Commerce sites with “Demandware”, one of the largest cloud type global E-Commerce platform in the West in 2016 Ending Feb. as the first user. TSI will initiate global E-commerce through its fully-owned sites and 3rd party.

## Evolve Stores’ IoT to Utilize Big Data

**Test installation: The latest store IoT platform “RetailNext” in the U.S.**

RetailNext Comprehensive In-Store Analytics

Trial opening of collecting Big data in retail business such as customers traffic in stores, entrance rate, customer characteristics, conversion rate etc. through IoT of stores




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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 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 strong support TSI's M&A and overseas development is underway.

**Core Apparel** ⟷ **Affiliated Businesses**

- M&A of domestic apparel
- Complement the blank area of TSI's brands portfolio e.g. M&A of "d'un à dix" and "Chez unaun"

**China**

- Discussion of JV with a major Chinese apparel company, envision the start for business in 2017SS -> Full-scale entry into accessible luxury and middle income market in China

**SEA**

- Planning M&A of countries' major apparel companies and expansion of our brands through capital tie-up between TSI and companies

- Discussion of M&A of a natural cosmetics company
- 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.



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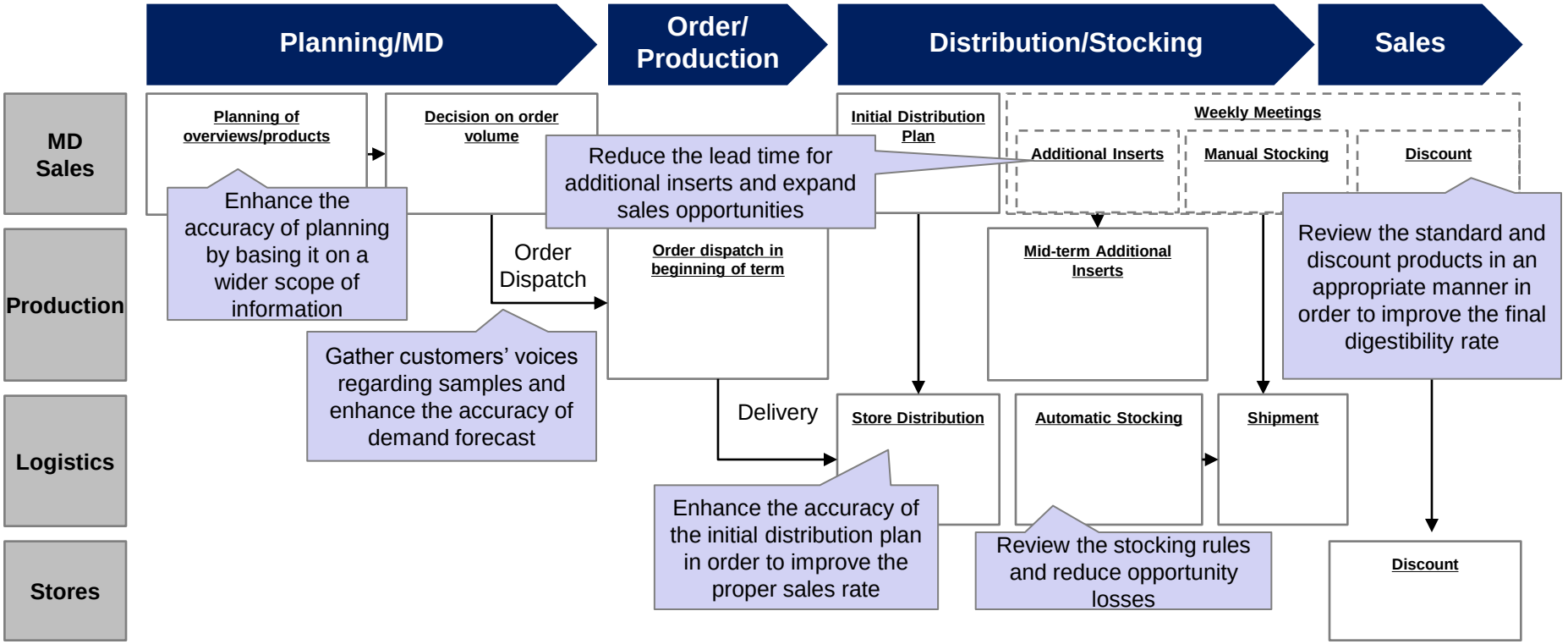
# Realize the minimization of sales opportunity losses and lost profits through scientific analysis




## Initiation of Pilot Project

- **Distinct standard to determine good and bad sales in early stages, and enhance the revising accuracy of sales plan.**
- **Optimization of stock flexibility for dispatch between stores**
- **Enhancement of E-commerce stocks to become less reliance on markdown and highly developed sellout method**

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| | 2016 Ending Feb. Results | 2017 Ending Feb. Plan |
|---|---|---|
| **Withdrawal of unprofitable businesses and brands** | Closure of 12 brands including liquidation of 2 subsidiaries and transfer of 1 brand<br>-> Early retirement 528 employees, closure of 292 stores and replaced 64 with continuing brands | Stricter standard of withdrawal from “unprofitable” to “low profitable” and monitoring progress quarterly, enabling subsidiaries to submit turnaround plans for discussion in timely manner |
| **Rationalization of Procurement** | Thrash out all the cuttable costs and clarify the ways of reducing -> Achieving 0.8bn yen reduction mainly from magazine advertisement and freebies | Expecting to reduce 1.7bn yen cost reduction from centralization of purchasing, establishment of purchasing rules and send out strict budget guideline |
| **Complete PDCA** | Understanding conditions of subsidiaries thoroughly by quarterly review -> discuss countermeasures with subsidiaries, implement cost control correspond to sales progress | Formulate budget through strict guideline -> manage budget progress through quarterly review |
| **Introduction of NPS** | Introduced to SANEI bd -> 6 out of 7 divisions are improving sales from Jan. to Feb. 2016 | Expand to other brands and develop PDCA cycle depending on circumstances of subsidiaries |
| **Implementation of BPR** | – | Demand forecast, enhance accuracy of production/distribution and development of discounting to obviate and minimize sales opportunity losses and profit losses |
| **Streamlining SCM** | Reduced 0.49 bn yen SCM cost through increment of direct trading ratio and optimization of import trading companies | Reduce 0.85bn yen through increasing direct trading ratio, optimization of import trading companies and concentration of warehouses |
| **Unified Core System to All Subsidiaries** | Completed renewal of production, receipts and payments, distribution, stores, EC, logistics, financing systems of certain subsidiaries with the new operating core system from Mar. 2015 | Expansion of the system to other subsidiaries -> Plan to introduce the system to d’un à dix and Chez unaun, new subsidiaries joined the group in Mar. 2016 through M&A |




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| | 2016 Ending Feb. Results | 2017 Ending Feb. Plan |
|---|---|---|
| **Digital** | Drive forward business infrastructure to achieve E-Commerce ratio of 20%<br>O2O sites 25 (Y/Y +14), strengthen relationship with 3rd party E-commerce such as ZOZOTOWN | Release of smartphone apps of brands with point managing function, plan to broaden cross-border EC/ Trial opening of big data utilization through IoT of Stores |
| **Overseas** | Contacts with several major apparel companies in Chinese and SEA. Evaluate suitable brands, planning for expansion scheme from M&A to establishment of JV | Aiming to establish JV with Chinese major company to start business in the country from 2017SS. For SEA, planning to expand brand sales through M&A to capital tie-up |
| **Expansion to Affiliated Businesses Creating Synergy to the Core Apparel** | – | Negotiation of M&A that is not easily affected by climate and have strong synergy effect to TSI |
| **Brand Portfolio Management** | Decision of M&A of d'un à dix and Chez unaun to complement a blank space of TSI's brand portfolio with the taste of "French Authentic" | Evaluate each brand's appropriate size and maximum growth potential, and discussion of M&A to fill in further blank spaces of the portfolio |
| **Reinforcement of MD and Creation** | – | Establishment of "Fashion Marketing Office" -> Initiation of the internal process to analyze social trends, translate into fashion trends, and reflect on actual manufacturing |





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(Unit: 100 Million Yen)

| | 2016 Ending Feb. Results | 2017 Ending Feb. Target | 2018 Ending Feb. Target | 2019 Ending Feb. Target |
|---|---|---|---|---|
| Net Sales | 1,672 | 1,660 | 1,700 | 1,800 |
| Operating Profit | 11 | 30 | 60 | 90 |
| Operating Profit Ratio | 0.6% | 1.8% | 3.5% | 5.0% |
| ROE | 1.1% | 2.2% | 5.0% | 6.5% |




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(Unit: 100 Million Yen)

## Net Sales

| Expansion of E-Commerce | Implement of M&A | | Impact of Withdraw Businesses (2016 Ending Feb.) | Existing Businesses | | Total |
|---|---|---|---|---|---|---|
| | Domestic | Overseas | | Existing stores decrease + New Open Stores | Closure of Low Profitability Businesses and Structural Reform | |
| +100 | +50 | +50 ~ +100 | -80 | +100 | -100 ~ -150 | +70 ~ +170 |

## Operating Profit

| Expansion of E-commerce | Implement of M&A | Rationalization of SCM Cost | Improvement of Gross Profit | Withdraw of Low Profitability Businesses (Before 2016 Ending Feb.) | Total |
|---|---|---|---|---|---|
| +10 | +5 ~ +10 | +10 | +20 ~ +30 | +25 | +70 ~ +85 |




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