

MEDIUM-TERM MANAGEMENT  
PLAN 2004–2006

REALIZING OUR BODY DESIGNING  
BUSINESS CONCEPT

1

# Maintain Market Dominance in Japan

The Japanese market for women's intimate apparel is Wacoal's earnings mainstay, and accordingly the Company's core growth strategy is to maintain an overwhelming share of that market. We intend to further expand our earnings base in Japan through a two-pronged approach that aims to increase points of contact with customers for our two mainstay brands, *Wacoal* and *Wing*, and to bolster direct sales channels, such as SPA (specialty store retailing of private label apparel), mail-order catalog, and Internet operations.



Wacoal has two mainstay domestic brands: *Wacoal* and *Wing*. We mainly market *Wacoal* brand products through department stores, general merchandising stores, and specialty stores, and the *Wing* brand primarily through general merchandising stores. While those two brands have successfully driven the Company's growth in the past, a rethink of brand strategy is urgently needed to create points of contact with new customers and to reflect realignment of the retail industry and diversifying consumer needs. However, this shift in strategy will not lead to a change in the major contribution the *Wacoal* and *Wing* brands make to the Company's performance. We intend to continue investing aggressively in those brands to enhance their competitiveness and profitability. Maintaining a leadership position in Japan's intimate apparel market also has a favorable impact on Wacoal's business in Asia. Although the region—and in particular China—is becoming a focus of world attention, customers in Asian markets still see success in the Japanese market as a barometer of company status.

For *Wacoal* brand products, our strategy is to maintain existing sales channels while developing new channels and marketing methods. We therefore intend to continue wholesaling *Wacoal* brand products to mid-to-high-end markets through department stores, specialty stores, and general merchandising stores. As part of its efforts to increase points of contact with customers and enhance services, the Company will develop sales counters that mainly target older women by carrying lineups differentiated from standard *Wacoal* brand ranges, such as *La Vie Aisée* and *Gra-P*. Also, we will enhance synergy between our wholesale and direct sales channels by marketing products with the same functionality as *Wacoal* brand campaign products through SPA,

mail-order catalog, and Internet channels. Through these measures, we aim to maintain sales levels by offsetting the contraction of *Wacoal* brand sales channels due to the slump in consumer spending in recent years and to enhance the operating income margin by continuing to reduce costs.

For *Wing* brand products, the Company aims to steadily increase sales while maintaining its operating income margin. Traditionally, we have targeted the brand at high-volume markets through general merchandising store sales. However, we plan to market *Wing* brand products through a wider variety of sales channels, including specialty stores, SPA shops, mail-order catalog and Internet operations, and certain department stores. Moreover, aiming to diversify sales channels for the *Wing* brand, we will invest aggressively to increase points of contact with customers by, for example, opening a new network of SPA shops in downtown areas.



Kanjiru bra & pants

**Mainstay-Brand Strategy**

Objective: Enhance operational efficiency and profitability

Sales	2004 result	2007 target
Wacoal brand sales	¥74.0 billion	¥76.0 billion
Wing brand sales	¥32.0 billion	¥34.0 billion

Until recently, Wacoal’s business was mainly focused on wholesaling to department stores and general merchandising stores. In 2001, however, the Company launched retailing operations to supplement earnings from those wholesaling operations by opening SPA shops in earnest. Since then, we have clearly positioned our SPA business as a future growth driver and undertaken aggressive forward-looking investment to expand our SPA shop network accordingly. And, our Medium-Term Management Plan 2004–2006 gives priority to the active expansion of our SPA business through sustained strategic investment.



amphi

Wacoal’s SPA shop network exclusively retails four mainstay brands: *une nana cool*, *Subito*, *amphi*, and *Sur la plage*. We are continuing to expand our SPA network, which totaled 45 shops as of March 2004. Each of our SPA shop brands has a distinctive marketing strategy that targets younger consumers—mainly women in their late teens to early 30s—by emphasizing design and price.



Sur la plage

In the fiscal year under review, total sales of the four mainstay SPA shop brands amounted to ¥2.4 billion. By the fiscal year ending March 2007, we aim to achieve sales of approximately ¥9.0 billion from those brands and to move SPA operations into the black.



une nana cool

To achieve those targets, we will take concrete measures to strengthen the operating platforms and market presence of our four SPA shop brands by continuing to actively open SPA shops based on careful location selection. Bearing in mind the key factors that have contributed to the creation of successful stores, we will emphasize profitability potential to build a high-quality shop network. Furthermore, we aim to maintain and heighten the

## STRATEGY: MAIL-ORDER CATALOG AND INTERNET SALES

competitiveness of the existing SPA network by encouraging stores to model their operations on examples of particularly successful stores.

In addition to its four mainstay SPA shop brands, Wacoal operates *Dublevé* SPA shops, which specialize in custom-made intimate apparel, and *CLAIRE* specialty shops, which carry *Wacoal* brand products. In particular, we intend to expand our network of *Dublevé* SPA shops by



Subito

opening shops in areas with high volumes of passersby.

In February 2004, as part of a new initiative, the Company launched its luxury *WACOAL DIA* brand and opened the brand's first shop, in Ginza, Tokyo. We aim to create a new market by positioning



WACOAL DIA

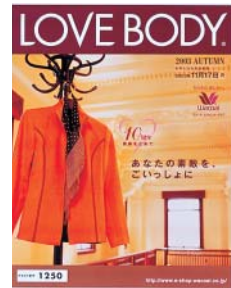
*WACOAL DIA* as a prestige shop brand that is associated with the highest levels of quality and service. The Company plans to market *WACOAL DIA* as an international brand through Japan's major department stores and develop the brand in markets in Europe and North America.

### SPA Strategy

Objective: Build a growth platform through continued aggressive investment

Sales	2004 result	2007 target
SPA sales (four SPA shop brand total)	¥2.4 billion	¥9.0 billion

As with our SPA business, we are actively investing in the expansion of mail-order catalog and Internet operations to increase points of contact with new customers. In mail-order catalog sales, for each season we issue three catalogs: *LOVE BODY*, *SACHET*, and *wannabe*. Furthermore, those mail-order catalogs are fully integrated with our *Wacoal Online*\* website, which we use for Internet sales. Along with store sales, mail-order catalog and Internet sales form the pillars of our three-channel retailing strategy. We aim to achieve Companywide sales growth by coordinating sales promotions for



LOVE BODY

*Wacoal* and *Wing* brand products with promotions in our three direct sales channels.

Mail-order catalog and Internet operations generated sales of approximately ¥6.7 billion in the fiscal year under review. However, our Medium-Term Management Plan 2004–2006 sets a combined sales target of ¥12.0 billion for those channels by the fiscal year ending

March 2007. Today, broadband Internet connections and cable television are rapidly gaining popularity in Japan. Mindful of these new vehicles, we intend to redouble efforts in mail-order catalog and Internet operations to develop points of contact with new customers.

\*<http://www.e-shop.wacoal.co.jp/>



Wacoal Online website

### Mail-Order Catalog and Internet Sales Strategy

Objective: Grow sales by leveraging three-channel retailing synergy

Sales	2004 result	2007 target
Mail-order catalog and Internet sales	¥6.7 billion	¥12.0 billion

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# 2

## Build New Value and Markets

By focusing on the themes of comfort and health, Wacoal aims to create new markets by leveraging the core competence it has accumulated in intimate apparel. Our Wellness business is at the heart of those efforts. Aiming to develop the business into a future growth engine, we have slated our Wellness operations for priority investment in our Medium-Term Management Plan 2004–2006.



CW-X SUPPORT GEAR

Wacoal's Wellness operations represent a major part of the Company's efforts to realize the Body Designing Business concept. The unique intimate apparel that we produce based on human science research has earned a strong reputation. Now, Wacoal is taking steps to create new value and markets by leveraging and adapting the technological and product development capabilities it has garnered through those efforts to develop new business areas, focusing on the themes of comfort and health. In the fiscal year under review, Wellness operations posted sales of roughly ¥5.6 billion. And, our Medium-Term Management Plan 2004–2006 aims to grow those sales to ¥10.0 billion by the year ending March 2007.



CW-X UNDER GEAR

At present, highly functional CW-X conditioning sportswear is the mainstay of the Wellness business. High quality and the support CW-X sportswear provides during exercise, which reduces fatigue and helps prevent injury, have already made it a firm favorite among many of the world's best athletes. By positioning CW-X as a bridgehead, we aim to grow our Wellness business in world markets. To that end, we will broaden the scope of operations beyond the current focus on conditioning sportswear to include business opportunities related to specific sports and healthcare and medical fields.

Looking ahead, Wacoal plans to raise brand value by licensing its CW-X technology and brand name and leveraging its human science know-how to pursue original equipment manufacturing.

### Wellness Operations Strategy

Objective: Leverage mainstay conditioning sportswear to create new markets

Sales	2004 result	2007 target
Wellness operations sales	¥5.6 billion	¥10.0 billion

## STRATEGY: NORTH AMERICAN AND EUROPEAN MARKETS

### MEDIUM-TERM MANAGEMENT PLAN 2004–2006

#### REALIZING OUR BODY DESIGNING BUSINESS CONCEPT

# 3

## Strengthen Presence in World Markets

Our goal is to have *Wacoal* become the top-selling, mid-to-high-end intimate apparel brand in overseas markets. To that end, we are taking steps to bolster the brand's presence in markets worldwide. We have just launched an aggressive three-year strategic investment program aimed at achieving steady growth in the markets of industrialized countries in North America and Europe and further expanding operations in Asian markets, particularly China.



Success in the markets of North America and Europe is a prerequisite if *Wacoal* is to become a top-ranking, internationally recognized brand. Therefore, expanding our business in those two regions is a major management issue; it is the first step on the road to making *Wacoal* the leading, mid-to-high-end intimate apparel brand in worldwide markets.

The Company's U.S. subsidiary, Wacoal America, Inc., which has established a marketing network of prestigious department stores that covers the United States, achieved sales of about US\$106 million in the fiscal year ended December 2003. Wacoal America has built up a broad customer base through the successful deployment of the *DKI* and *Wacoal* brands in high-end markets and the *DKNY* brand in mid-to-high-end markets. Our Medium-Term Management Plan 2004–2006 sets a sales target of US\$123 million for Wacoal America by the fiscal year ending March 2007. To reach that target, we will take a range of measures aimed at maintaining steady sales growth and securing profitability in the U.S. market, such as the inclusion of products designed by Wacoal France S.A. in Wacoal America's lineups from fall 2004. Through that initiative, our goal is to enhance the prestige of product ranges while leveraging management resources globally.



Sales counter in Galeries Lafayette, Paris

Wacoal France, a design and sales subsidiary that handles all of Wacoal's European operations, currently focuses its efforts mainly on France and Belgium. However, aiming to eventually cover the whole of Europe, it will embark on the staged expansion of its marketing operations. As a first step, the subsidiary aims to begin sales in Germany in the near future.

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### United States: Operational Strategy

Objective: Maintain steady growth by strengthening market presence

Sales	2004 result	2007 target
Wacoal America sales	US\$106.0 million	US\$123.0 million

## STRATEGY: CHINESE MARKET

The undiminished pace of China's economic development will likely lead to further market expansion. Wacoal regards China as an extremely important part of its overseas business strategy. Our main goal, given the strong likelihood that it will soon become Asia's leading market, is to develop a solid brand presence in China. Wacoal is therefore focusing its efforts on aggressive investment in the marketing and production of *Wacoal* brand products and the establishment of a robust profitable operating platform.

Since it launched operations in China by establishing a joint venture in Beijing in 1986, Wacoal has increased local production capacity and expanded sales channels every year. We took another step forward in December 2000 by making that joint venture into a wholly owned subsidiary to strengthen our operating platform. Based on sales centers in Shanghai, Guangzhou, Dalian, and Chengdu that have Wacoal's headquarters and factory in Beijing as their hub, the Company is building a sales network that will cover China's major cities. Further, we plan to begin production for export to Japan at a plant in Dalian in autumn 2004. As of March 2004, 138 department stores in China carried *Wacoal* brand products. And, we plan raise this number to more than 300 stores by 2007. Also, the Company established a human science research center in Shanghai in 2003 to heighten local product-planning capabilities. Based on the principles of ergonomics, the center develops original products that cater to the needs of the Chinese market.

Through these various initiatives, Wacoal plans to grow sales in China to ¥3.0 billion by the fiscal year ending March 2007. During the period to March 2007, we will also continue investments aimed at securing a solid foothold in the Chinese market.

### China: Operational Strategy

Objective: Establish a strong brand presence and bolster profit base

Sales	2004 result	2007 target
Chinese market sales	¥0.8 billion	¥3.0 billion



Image of Dalian Wacoal, China

## STRATEGY: OTHER ASIAN MARKETS

*Wacoal* has become a leading brand in the intimate apparel markets of many of Asia's major countries and cities, including South Korea, Taiwan, Thailand, Indonesia, the Philippines, Hong Kong, and Singapore. Apart from Hong Kong and Singapore, Wacoal's business in those countries and

regions is conducted through joint ventures established with local capital. However, we have begun a new initiative aimed at heightening the presence of the *Wacoal* brand and expanding operations in Asia's markets by opening local SPA shops.

*une nana cool* in Singapore

Further, due to the marked similarities between the mature markets of Asia's main cities and the Japanese market, the Company plans to coordinate its product and marketing strategies in Japan with local affiliates in such markets. Greater integration is required in the development of Wacoal's operations in Asia, given the increasingly borderless growth of the Asian economy—particularly among ASEAN countries, which have created an ASEAN Free Trade Area that aims to eliminate regional tariffs. Mindful of this, the Company will enhance the Wacoal Group's competitiveness and brand presence in Asia by reorganizing respective affiliates' roles and local tie-ups.

