

PEACH JOHN

Efforts to Improve the Profitability of the Peach John Business and Its Future

Tochio Manabu

Peach John Co., Ltd.
President

Tochio: Hello everyone. I am Tochio Manabu, President of Peach John Co., Ltd.

I will explain the structural reforms that we have been implementing and our future growth strategy under the theme of our efforts to improve the profitability of the Peach John Business and its future. Thank you.

Tochio Manabu

1989 Joined Wacoal Corporation
2002 Manager of the Products Division, Wacoal China Co., Ltd.
2008 CW-X Brand Manager of the Wellness Business Department,
Wacoal Corp.
2012 General Manager of Peach John Shanghai Co., Ltd.
2017 President and Vice General Manager of Wacoal China Co., Ltd.
2019 President of Peach John Co., Ltd.
(President and General Manager of Peach John Shanghai Co., Ltd.
since January 2020)



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Please see page two. I would like to briefly introduce myself.

After being transferred to Wacoal China in 2002, I returned to Wacoal in 2008 to take on the role of brand manager for CW-X sportswear. I was then involved in the China business of Peach John and Wacoal, and was appointed President of Peach John Co., Ltd. in April 2019. I am also currently the president of Peach John Shanghai, and participating from Shanghai today.

Company Overview

PEACH JOHN

Company Name: Peach John Co., Ltd.

Established: June 1994

History: 1988 Published the first catalog

1994 Established as a mail-order company for imported underwear, and opened the first retail store

2006 Capital business alliance with Wacoal Holdings

2008 Became a wholly owned subsidiary of Wacoal Holdings

2008 Opened a directly-managed store in Hong Kong (first overseas expansion)

2010 Opened a directly-managed store in Shanghai

2017 Opened a directly-managed store in Taiwan

Sales: JPY 10.48 billion (FY end Mar. '20 Peach John Segment)

Number of Employees: 491 (including 326 sales staff) Note: As of January 2021

Number of Directly-managed Stores: 36 in Japan and 11 overseas

Subsidiaries: Peach John Hong Kong, Peach John Shanghai, and Taiwan Peach John

Products: Bras, lingerie, innerwear, loungewear, etc.



Brand Lineup: Peach John as its master brand, with two sub-brands with a shared value and for different generations

PEACH JOHN



Target: Around thirties
A brand of lingerie, loungewear, body care cosmetics, etc. for women who celebrate who they are

GiRLS
by PEACH JOHN



Target: Late teens to early twenties
The sister brand of Peach John, created for girls who seek happiness and excitement every day (Launched in 2020)

SALON
by PEACH JOHN



Target: Around mid-forties
A brand of lingerie and other products designed for adults who enjoy their lives in their own ways (Launched in 2013)

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Please see page three. This section provides a summary of Peach John's corporate profile.

Peach John was established in 1994 as a mail-order company for imported underwear, and later began selling its own products. The company later became a wholly owned subsidiary of Wacoal Holdings in January 2008.

The reason for the acquisition was that at the time, Wacoal was facing challenges in developing contacts with young consumers who purchased underwear through channels other than department stores and mass merchandisers, and wanted to incorporate Peach John's customer base and catalog mail order know-how into the Group.

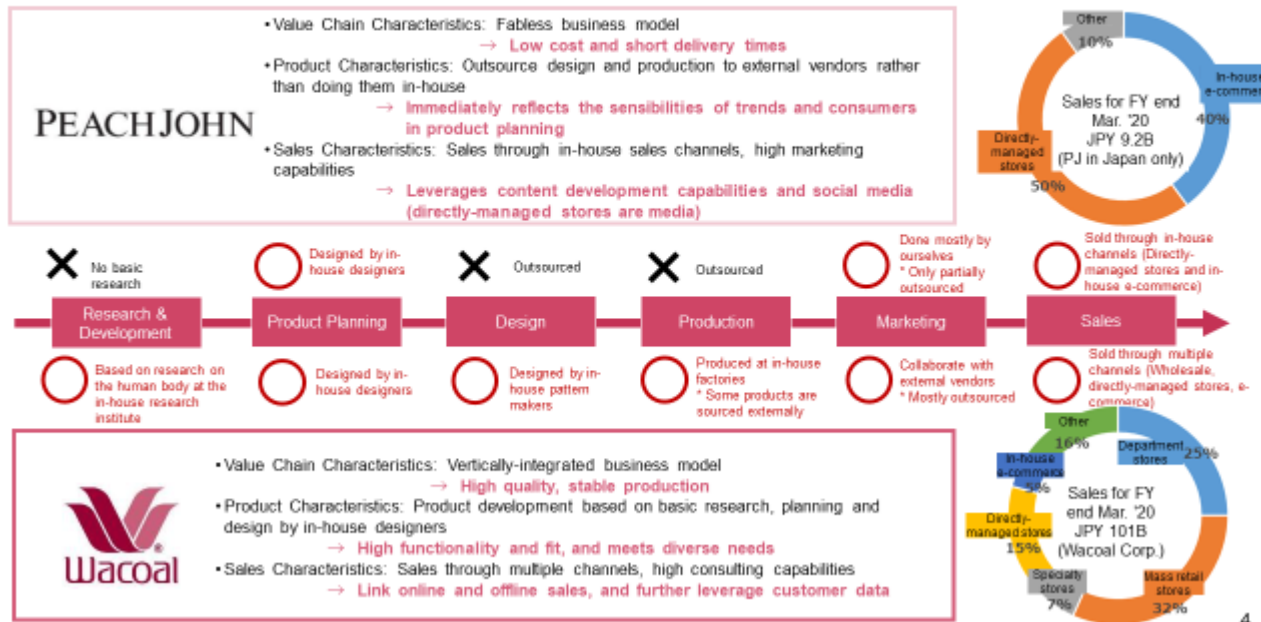
Currently, we have about 500 employees, and the majority of them are women. There are only about ten men.

We also started our overseas business with the opening of a store in Hong Kong in 2008, and are currently developing our business through our subsidiaries in Hong Kong, Shanghai, and Taiwan.

The brand has Peach John as its master brand, with two sub-brands for different generations. SALON by PEACH JOHN, which started its development in 2013, is a brand that targets the fans of its founding and is developing in line with their changing values. In addition, the GiRLS by PEACH JOHN brand, which was launched last year, was created with the aim of attracting young customers in their late teens to early twenties.

Business Characteristics (Compared With Wacoal)

PEACH JOHN



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Please turn to page four. This is a summary of Peach John's business characteristics in comparison with Wacoal.

In order to meet the diverse needs of women, Wacoal has adopted a vertically-integrated business model that encompasses everything from research and development to sales. While based on human body research at the Human Science Research Institute, the products are also planned and designed by employee designers, and feature high functionality and fit.

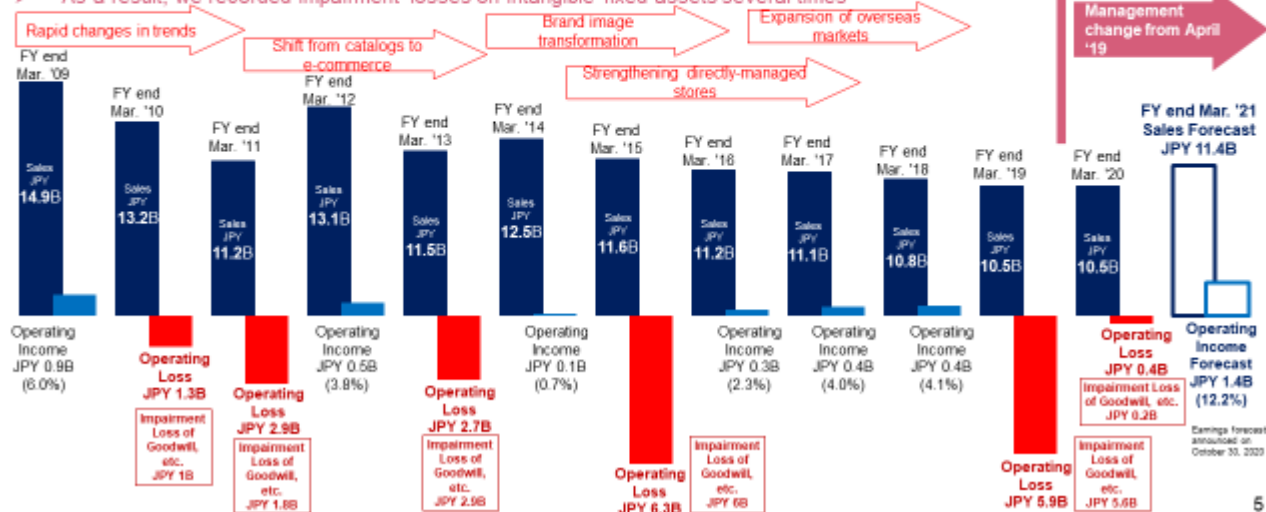
In addition, as the pie chart shows, there is a wide range of sales channels. At present, the weight of ecommerce is rapidly increasing, but sales at physical stores account for a large portion of our business, as the thorough consulting sales by our sales staff is one of the strengths of our business.

Peach John, on the other hand, has developed a business that immediately reflects the sensibilities of trend-sensitive consumers in its product planning and sells its products at affordable prices. For this reason, we have adopted a fabless business model, outsourcing design, and production operations to outside vendors. By doing so, we are able to achieve short delivery times and low prices. As for sales channels, most of our sales are through our own EC and directly-managed stores, although we also do some wholesale to other companies' EC.

Changes in Business Performance Since Becoming a Subsidiary

PEACH JOHN

- Unable to achieve growth and expansion as planned. This was due to the decline in demand for underwear, which strongly reflects current trends and shrinking mail orders
- Aimed for growth through transforming our brand image and strengthening our product capabilities, enhancing our stores and e-commerce, and growing our overseas business, but we couldn't improve profits
- As a result, we recorded impairment losses on intangible fixed assets several times



Please see page five. Next, I will explain the consolidated business performance of the Peach John Business after its acquisition by Wacoal Holdings.

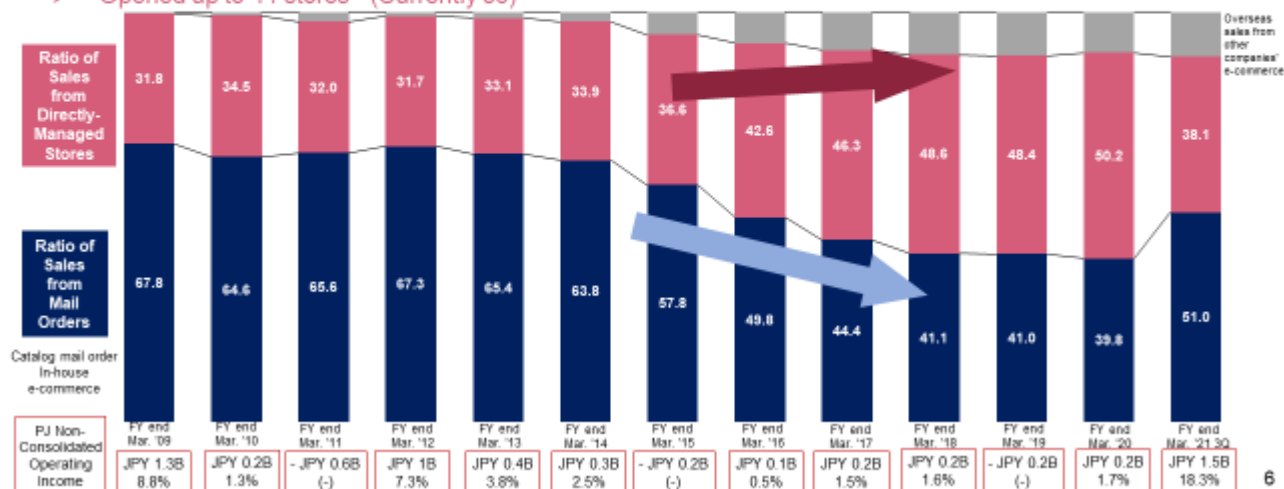
The purpose of the acquisition was explained earlier, but due to rapid changes in trends and the shift in sales channels from catalogs to ecommerce, we were unable to achieve the growth and expansion we had initially planned. Since then, we have worked to transform our brand image and to achieve renewed growth by opening new directly-managed stores and strengthening our overseas business, but the results have not been as expected.

You are probably more familiar with the disappointing results of the multiple impairment losses on intangible assets as a result of the prolonged downturn in business performance.

Changes in the Sales Ratios in Domestic Business

PEACH JOHN

- Tried to shift from catalog mail orders to a business model in which people see a catalog and buy products through e-commerce, but struggled
- Opened more directly-managed stores as a measure to expand sales, but the cost structure deteriorated and profitability declined
- Opened up to 44 stores (Currently 36)



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Page six shows the changes in the sales composition ratio by channel.

As I mentioned earlier, the ratio of sales from directly-managed stores has increased significantly since about 2015 due to the struggles of catalog mail order after the acquisition and the strengthening of stores in response. As a result, this shift to directly-managed stores has led to a deterioration in the cost structure.



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Moving onto page seven. Immediately after assuming the position of president in April 2019, I conducted an issue analysis based on Peach John's performance. As a result of our analysis, as stated, we have determined that the deterioration of management efficiency and the decrease in new customers are major issues for Peach John's business.

Therefore, we have formulated a strategy for regrowth, with the strengthening of our own EC as the pillar of restructuring Peach John's business.

This section describes three specific initiatives. The first is a catalog. The decision was made to discontinue Peach John's legacy catalog. Although sales had been switched to ecommerce, catalogs were still being published, resulting in a skewed part number structure. Catalogs must contain products until the last page, and there is a need to apply a large number of part numbers. However, since only the top part numbers are sold through EC, we have optimized the number of part numbers and inventory by suspending the catalog.

In addition, we withdrew from nine unprofitable stores. Through these efforts, we worked to control SG&A expenses.

The second is to review sales methods and curb excessive sales. In this way, we worked to improve our sales profit ratio.

Thirdly, in order to link Peach John's strength in marketing, which generates buzz, to business performance more efficiently, we worked to increase advertising efficiency. I think you can understand the first and second initiatives and our effects, so today I will explain the third initiative in detail.

Note: Non-consolidated figures for Peach John in Japan (including internal sales)

		FY end Mar. '19	FY end Mar. '20		FY end Mar. '21 3Q	
Sales (JPY M)		9,943	9,840	↓	8,284	↑
	Sales Profit Ratio (%)	60.3	61.5	↑	65.9	↑
	SG&A (JPY M)	6,204	5,890	↓	3,942	↓
	(SG&A Ratio [%])	62.4	59.9	↓	47.6	↓
Operating Income (JPY M)		-208	163	↑	1,513	↑

		FY end Mar. '19	FY end Mar. '20		FY end Mar. '21 1st Half*	
Number of Purchases (K) * 6 months for FY end Mar. '21 1st Half	In-house e-commerce	508	497	↓	387	↑
	Stores	857	875	↑	328	↓
New Customer Ratio (%)	In-house e-commerce	25.5	28.6	↑	33.6	↑
	Stores	47.9	47.8	↓	43.2	↓
Number of Purchases per Year (Times/Year) * "Times/5 months" for FY end Mar. '21 1st Half	In-house e-commerce	1.65	1.59	↓	1.41	↑
	Stores	1.46	1.46	→	1.25	↑

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Please see page eight.

As a result of the initiatives described in the previous page, our cost structure has improved significantly in the fiscal year ending March 2020, and we have been reborn as a profitable Company.

And in this fiscal year, which was hit by the coronavirus pandemic, our past efforts, combined with changes in consumer behavior and awareness, have led to significant results. By achieving high growth in our own ecommerce while continuing to improve our cost structure, we were able to generate approximately JPY1.5 billion in operating income in the cumulative Q3.

Of course, for this fiscal year, there are some temporary boosting factors, such as rent reductions and exemptions as a result of temporary closure of stores and receipt of employment adjustment subsidies in response to expanding effect of infectious disease. However, even taking this into account, we were able to significantly improve profitability, which had been an issue.

In addition, we have been able to improve our KPIs such as the number of purchases, new customer rate, and the number of purchases per year, which we have been focusing on for growth. From the next page, I will explain what we have done to improve these KPIs.

PEACH JOHN

Strengthening Initiatives to Link Peach John's Advantages to Business Performance

- (1) Leverage our advantages as a mail-order company
- (2) Strengthen customer acquisition and retention
 - 1. Efficiently link the buzz to an increase in new customers
 - 2. Increase the number of purchases per year by existing customers through retention (CRM activities)

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Please see page nine. I will now explain the initiatives we have implemented to link Peach John's strengths to our business performance.

There are two points we have been working on. It is about leveraging Peach John's inherent strengths. And to strengthen our efforts to acquire and retain customers.

- Peach John is essentially a "mail order company"
- Female employees plan products and promotions on their own from the users' (women) perspective
- Refine the ability to create a buzz using the outstanding creativity cultivated through catalog making



Example 1. Think out a launch that women can empathize

Who to choose as the muse, and when and how to launch the inauguration of the muse are all based on the research and discussions of our female employees. In January 2021, freelancing anchorwoman and actress Minami Tanaka was appointed as our new muse. Named as "Most Beautiful Woman" in a women's magazine in 2020, she is an icon of women in Japan. While leveraging her personality and character, **we thought out a launch that women can empathize**, and developed a launch plan along with one for promotion visuals. We held a press conference for her appointment on January 20, and it became a hot topic of conversation through the media and social media. It has had a very positive impact on sales with promotion products selling out in a few days after the announcement. We plan to conduct various promotions with Minami Tanaka for each season over the course of this year.

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Please see page 10. With its roots in catalog shopping, Peach John's strength lies in its ability to create a buzz that conveys the appeal of its products to consumers. And I believe this is due to the fact that our female employees, who make up the majority of our workforce, are able to plan products and promotions on their own from the user's perspective.

I would like to introduce four examples of what they have planned that have recently become a hot topic.

This photo is of Minami Tanaka, who was recently appointed as our new muse. Who to choose as the muse, how to launch the inauguration of the muse, and what to do with her visuals are all based on the research and discussions of our employees?

Minami Tanaka was appointed as our muse on January 20. And her appointment has become a big topic of conversation through the media and SNS, and has had a very positive impact on sales since her appointment. We plan to conduct various promotions with Minami Tanaka over the course of this year.

**Example 2. Try****(a project realized from an idea of our employees)**

This project was originally started with the theme of **making Peach John more accessible to women around the world**. The idea came about from daily discussions by our female employees.

We recruited people from the general public via social media to serve as models, and our female employees screened over 600 applicants in auditions. The Real Size Models project consisting of people of various ages, body types, and occupations launched in 2019.

The original purpose was to help customers buying bras personalize the image of wearing the products by seeing on the e-commerce website more "realistic" models of similar size and shape to themselves wearing the products, rather than professional models.

It has also become a hot topic as an example of incorporating the idea of being Body Positive, which is becoming a trend in the world, ahead of others in Japan. As such, we have been featured in the fashion magazine *WWD JAPAN*, and have been receiving requests for interviews one after another.

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Please see page 11.

This is a project called Real Size Models, in which people of various backgrounds, ages, and body types were recruited from the general public to serve as models in order to make Peach John more accessible to consumers.

By having models of similar size and shape to themselves wear the products, rather than professional models, they are able to personalize the image of wearing the products, which has been well received. In addition, it has become hot topic as an example of incorporating the idea of Body Positive, which is becoming the trend in the world, ahead of others in Japan.



Example 3. Make products that we think are cute

This year's Valentine's Day promotion. This is a successful example of creating the iconic Peach John atmosphere with visuals that are happy, eye-catching, and exciting for women.

These visuals instantly excited our female employees the moment they saw them in the early stages of production. Visuals like these that were successful in boosting the honest mood and empathy of the creators involved are likely to be accepted by women around the world as a result, leading to purchases.

Traditionally, we have done promotions with themes like "have fun with your lover" for Valentine's Day. However, for this year, in response to the pandemic, we chose the theme "Happy Valentine's Day to Me" and launched a promotion that's more empathetic to customer sentiment.

This content generated a buzz on social media and among customers after it was featured by an influential media outlet via social media on the day of its release.

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Please see page 12. This is a promotion for this year's Valentine's Day.

The visuals in this photo were created based on the idea of female employees who intended to create cute visuals from the early stages of production, and they became a big topic after the release. I feel that Peach John is able to gain the sympathy of young consumers because we are creative with a sense of closeness to consumers.



Example 4. Re-shoot the pictures of unsuccessful products from a women's point of view

There were some products that didn't sell well with the visuals that were originally prepared. **We re-shot their main visuals while listening to the opinions of our employees** to replace them with photos that would look attractive on SNS and **boosted women's mood**. Making them look better has led to more purchases than expected.

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Please see page 13. However, not all of them have been successful. There are also failures. This is about the products that did not sell well as planned.

Even so, this is an example of a product that was not selling well after its launch, but we reviewed the photos of these products from the woman's point of view and re-shot them to make them look better, which led to more purchases than expected. This is an example of Peach John's ability to always think from a woman's perspective.

1. Efficiently link the buzz to an increase in new customers

⇒ Advertising that leads to SALES rather than PR (impressions)

How to Pursue Advertising Efficiency

- (1) Establish clear KPIs such as the number of new customers and the number of purchases (in-house e-commerce/retail stores)
- (2) Establish a method for measuring the effectiveness of advertising
 - Before: Focus on IMP
 - Now: Measure effectiveness through actions from clicks leading to purchases
- (3) Compare the expectation of achieving KPIs with the cost of investment and adopt the more efficient advertising media

2. Increase the number of purchases per year by existing customers through retention (CRM activities)

⇒ Retain customers and increase the number of loyal customers by enhancing member benefits and constant approach to members

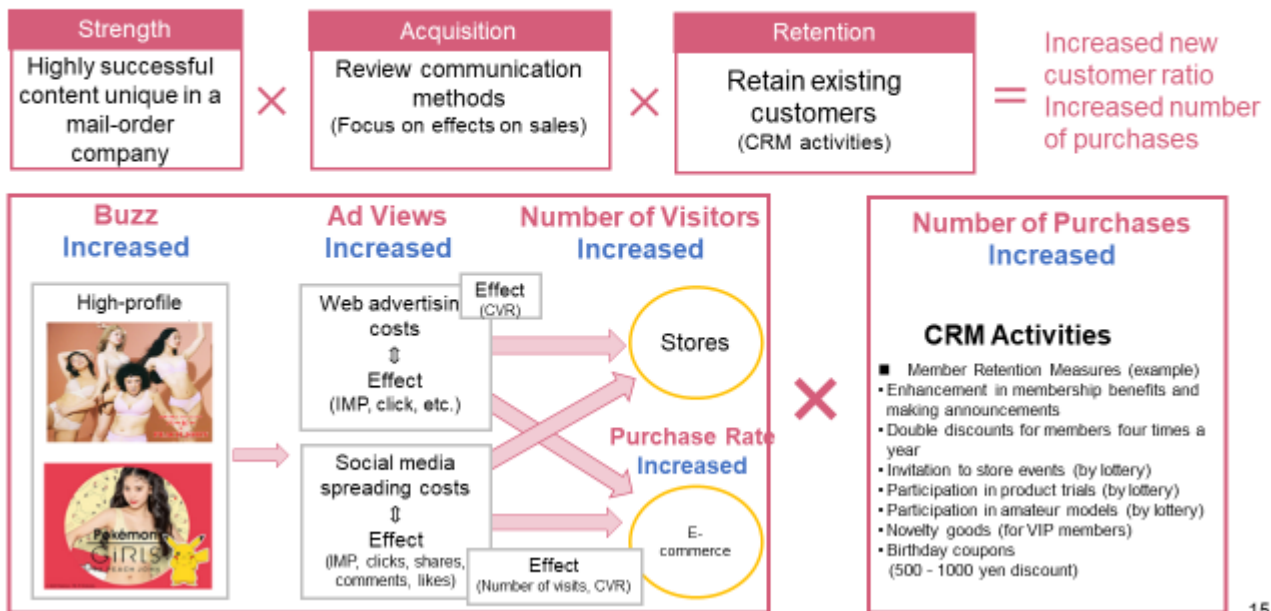
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Please see page 14. Next, I will explain our efforts to link these strengths of Peach John to our business performance.

First, we are working on raising the effectiveness of our advertising investment in order to efficiently link the buzz to an increase in new customers.

Up until now, our advertising strategy has been to focus on impressions. We made the decision that impressions alone were not enough. As stated in the center of the page, after establishing a method for measuring the effectiveness of advertising, we compare the expectation of achieving KPIs with the cost of investment and adopt the more effective advertising media, thereby minimizing costs and striving to link the buzz to sales growth.

The second is to increase the number of purchases per year by existing customers who are members of our company. We are striving to retain customers and increase the number of loyal customers by strengthening member benefits and increasing our approach to members.



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Please see page 15. This section provides an image of the explanation on the previous page.

Peach John has been using the catalog media to expand sales so far. What we are currently working on is to establish an alternative advertising method to catalogs.

Currently, we are implementing a strategy to increase the number of new customers and the number of annual purchases by existing customers by implementing high-profile promotional measures, pursuing advertising efficiency, and strengthening our approach to existing customers.

However, I do not believe that the new advertising method has been completed with this, and I recognize that it will change with the times. We will continue to work on this initiative so that we can continue to produce the effect.

1. Strengthen the ability to develop content and disseminate information

⇒ Express Peach John's management philosophy of Energetic, Happy, and Sexy in accordance with the changing times

2. Develop human resources who can verify the effectiveness of advertising and make management decisions based on data

⇒ Need to train future managers who can develop strategies to evolve Peach John into a company that can always grow

3. Regrow the overseas business and improve profitability

Challenges

- (1) Decline in competitiveness due to a weakened brand power (both directly-managed stores and e-commerce)
- (2) Decline in inventory management capabilities

⇒ Improve the cost structure and achieve sales growth by making good use of the successful Japanese content, as well as with the help of local influencers

⇒ Re-evolve into a brand that is supported by customers in Asia

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Please see page 16. We will now explain our challenges and goals for future growth. We recognize that our current challenges are as follows.

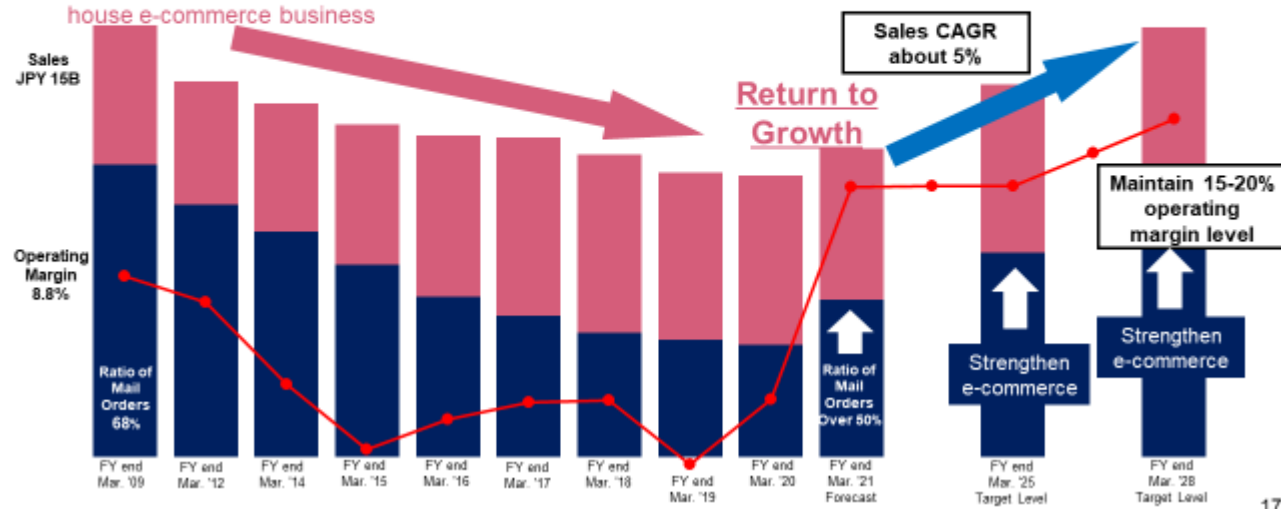
The first is to continuously strengthen our ability to develop content and disseminate information. Consumer needs change all the time, and our inability to respond to those changes has led to our past slumps. By continuing our efforts to express Peach John's management philosophy of Energetic, Happy, and Sexy in accordance with the changing times, we will continue to create products and content that resonate with consumers.

The second is to develop human resources who can verify the effectiveness of advertising and make management decisions based on data. In the past, when we struggled, we were not able to objectively verify and make decisions based on data. In order to evolve Peach John into a company that can always grow, we need to develop managers who can make the best decisions according to the situation.

The third is to regrow our overseas business and improve profitability. One of the challenges we face is the decline in brand power and inventory management capabilities, so we will continue to improve our cost structure and achieve sales growth by making good use of the Japanese content that is currently successful, as well as with the help of local influencers.

Medium- to Long-Term Targets

- Return to the sales level immediately after the acquisition (about JPY 15B) by continuing to acquire new customers and increasing the number of purchases made by existing customers
- Consistently generate a high operating income level (15-20%) by increasing the ratio of sales in high-margin in-house e-commerce business



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Please see page 17. This is the last page. Growth targets for the Mainstay Domestic business are described.

By continuing the initiatives I have described and resolving the current issues, we hope to return to the sales level immediately after the acquisition as our long-term vision through the fiscal year ending March 2028.

In terms of operating income, we would like to evolve into a company that can consistently generate an operating income level of 15% or higher by increasing the ratio of sales from our own high-margin EC business.

That is all for my explanation. Thank you very much for your attention.

WACOAL HOLDINGS CORP.

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