

## A Message from the President



*Hironobu Yasuhara*

Hironobu Yasuhara  
President and Representative Director  
Wacoal Holdings Corp.

# We will continually strive to make the Company a global leader in the industry and to enhance enterprise value.

## Wacoal's Next Destination

In November 2019, Wacoal will celebrate its 70th anniversary. The mission of the Company has not changed since its founder Koichi Tsukamoto created and popularized a Western innerwear culture in Japan during the turbulent period shortly after the Second World War. This mission is to *contribute to society by helping women to express their beauty*. As of 2019, Wacoal has businesses around the world. In the women's innerwear market, we have become a global company that markets products in more than 50 countries and regions and has local subsidiaries in 22 countries and regions. Worldwide, our workforce has surpassed 20,000 employees, with overseas sales accounting for approximately 40% of our revenues. Over the years, Wacoal has built a reputation as a high-quality brand loved by many women in North America and Europe, not to mention women in Japan and other Asian countries.

This rapid progress stems from the vision that Wacoal set out at the time of its listing in 1964. *We, the employees and management of Wacoal, will maintain a refined corporate culture based on mutual trust and will continually strive to make the Company a global leader in the industry.* As the aforementioned vision illustrates, our business management has been focused on building a "Global Wacoal" for more than half a century. In addition, the vision calls on Wacoal to *maintain a refined corporate culture based on mutual trust*. This refers to the pursuit of sustainable growth based on the creation of both economic and social value and is precisely what we now refer to as "ESG (environmental, social, and governance) management."

Having evolved over a 70-year period, Wacoal is embarking upon new initiatives to ensure that the Company continues to be a necessary presence in society throughout the remainder of its first century and beyond. One such initiative has been to redefine the "Global Wacoal" target profile to incorporate perspectives stretching 10 to 20 years into the future. We announced the new target profile, which includes specific goals, to coincide with the announcement of a new medium-term management plan in June 2019.

## Our Vision of a "Global Wacoal"

We have clarified the five components of a "Global Wacoal" (please see page 18). The first of these is the global marketing of Wacoal products and services and the implementation of social initiatives that consistently earn strong trust. Another important component is the redoubling of efforts to create new areas of innerwear culture by developing and marketing pioneering products.

Wacoal has created a unique innerwear culture by adding new value to innerwear, an item once little more than a commodity. Among apparel, innerwear is worn closest to the skin. We take pride in the fact that through the development and marketing of pioneering products that garner the love of customers in each era we have helped create a society in which women are vital and radiant. Sustaining this pioneering spirit, we will continue to create new areas of innerwear culture. These efforts will culminate in Wacoal becoming the most trusted company among customers globally and realizing its vision of a "Global Wacoal."

Happily, Wacoal's employees have inherited and internalized the founding spirit expressed by our mission and our vision. Working at Wacoal for more than 40 years has given me a real sense of this continuity. It is often said that people are a company's greatest management resource. Wacoal is no exception, and the team spirit among

employees is one of the Company's advantages. I would like to accelerate progress toward realization of our vision of a "Global Wacoal" by encouraging shareholders, investors, and other stakeholders to share and pursue it in tandem with our senior management team and employees.

### Our Vision of a "Global Wacoal"

1. The Wacoal Group's products and services and efforts to address social issues are highly trusted by customers and all other stakeholders in markets worldwide.
2. The number of countries and regions in which we operate continues to increase.
3. Under our Group network, we are operating businesses in a coordinated manner on a global scale.
4. We always provide pioneering products to the world and continue to lead the industry of innerwear culture.
5. The Group mission and philosophy are instilled in employees across the world.

### Risks and Opportunities in an Evolving Environment

At present, the business environment is changing in some striking ways. In Japan, society is aging rapidly, casual fashion is emerging, e-commerce is expanding swiftly, and technological innovation is advancing. Each of these changes has the potential to become a risk or an opportunity for Wacoal. For this reason, the Company must carefully analyze the effect of future environmental changes on its businesses and take timely measures accordingly.

For example, the aging of Japanese society will, inevitably, shrink the women's innerwear market. However, Wacoal's share of the domestic market is still only 20% on a monetary basis and a mere 10% in terms of customer numbers. Moreover, only around 30% of women wear the

correct size of innerwear. Therefore, there is still plenty of scope to attract new customers and thereby grow market share and expand our domestic businesses. I believe that we can sustain growth going forward by building deeper, broader, and longer relationships with existing customers while attracting as many new Wacoal devotees as possible.

Looking overseas, the empowerment of women and further economic progress taking place in emerging and developing countries are likely to heighten women's interest in innerwear and increase demand. Having completed test marketing in the markets of India and Brazil, we are moving efforts up a gear with a view to expanding our presence in these countries. Thus, I am confident that advancing bold measures in Japan as well as in markets worldwide will enable us to take large strides forward.

**I would like to accelerate progress toward realization of our vision of a “Global Wacoal” by encouraging shareholders, investors, and other stakeholders to share and pursue it in tandem with our senior management team and employees.**

### **The Importance of Digitization and Personalization**

The advancement of digitization and other technological innovations is significantly changing consumer behavior and necessitating reform of our business models. Once the mainstay sales channels of the retail industry, department stores and general merchandise stores continue to flag, while the expansion of Internet-enabled e-commerce gathers pace. For many years, our strength lay in sales through brick-and-mortar stores, particularly department stores. Consequently, some of our stakeholders are anxious about the future. However, I do not think that brick-and-mortar stores and e-commerce necessarily stand in opposition to one another. Brick-and-mortar stores have their own distinctive merits. For this reason, our focus should be on how to combine the merits of both sales channels in ways that heighten customer convenience.

That said, the role of brick-and-mortar stores is certain to change significantly. Until now, brick-and-mortar stores have been places where customers purchased products. Going forward, however, they will increasingly become places where customers feel free to try on products and find those that best meet their needs through consultations with sales personnel. To fit the physique of each individual, women's innerwear needs to be available in an elaborate range of sizes. Given that our women's innerwear comes in a particularly extensive range of sizes and includes unique functionality and fashion features, it is doubly important for our customers to have opportunities to select products that fit them properly. For this reason, brick-and-mortar stores will continue to play an important role. Rather than simply being “sales areas,” they will evolve

into “consultation areas.” At the same time, we will heighten the presence of both sales channels—brick-and-mortar stores and e-commerce—by enabling customers to purchase products via whichever sales channel suits them.

In addition, we are seeing growth in body positivity, a social movement that emphasizes the importance of accepting the different physiques of human beings over focusing on uniform standards of beauty. Reflecting this trend, many customers now want to express their beauty in a more personalized way. Needless to say, Wacoal has the competence to offer products catering to the diverse values and physiques of customers. Unless we personalize our products even further, however, our future will not be bright. With marketing based on uniform values no longer viable, we will build personalized marketing systems that suggest and provide products specifically for each customer. These efforts will transform us from “everyone's Wacoal” to “my Wacoal.”

As part of these efforts, Wacoal is advancing an original omni-channel strategy to establish a relationship with each customer that is robust, broad, and long term. For example, over the coming three years we will reflect customers' growing preference for personalization by introducing 100 digitally enabled customer service systems to major stores in Japan. Combining a 3D body scanner and AI-enabled customer service, the *3D smart & try* system allows customers to measure their own physiques without the stress of consulting with sales personnel, pick out the optimal product, and then try on the actual item. Further, the system creates a digitized record of the customer's measurements and other personal information so that the customer can shop more conveniently at other stores or through e-commerce in the future. While verifying the new

system, we plan to install it at even more stores.

Similarly, in the United States—our mainstay overseas market—customer preferences are diversifying, sales channels are changing from brick-and-mortar stores to e-commerce, and new methods of communicating with customers are developing. Within this market environment, emerging “digitally native vertical brands (DNVBs)” are garnering endorsement among millennials. In response to this external environment, Wacoal recently acquired Intimates Online, Inc., through U.S. subsidiary Wacoal International Corp. (For a summary of Intimates Online and the reasons for its acquisition, please see page 41.)

Looking ahead, if no measures are taken Wacoal would be at risk of having its stable business foundations and overwhelming advantages in existing sales channels in Japan become its weaknesses. Based on a strong awareness of the potential for such crises, we will continue to pursue ambitious initiatives that convert future risk factors into business opportunities. Of course, we understand that this will not be an easy task. Nonetheless, we are determined to tirelessly take on challenges with the aim of realizing a “Global Wacoal.”

### Competitive Assets and Value Creation Systems

Wacoal has been fostering unique competitive assets and value creation systems since its founding. In my view, the Company’s greatest asset is the trust of customers worldwide in our brand. This trust is underpinned by high quality. Our pursuit of quality is not narrowly limited to the durability and reliability of innerwear. Rather, we take a more far-reaching approach that focuses on adding quality to products to ensure that they reflect the lifestyles and life stages of women and appeal to their sensibilities. Based on this unique, multifaceted approach to quality, we have established a long track record of *helping women to express their beauty*.

Further, we realize our unique quality through value creation systems that enable the organic functioning of distinctive tangible and intangible assets. In product development, for example, we capitalize on human science research. For more than 50 years, Wacoal has been conducting scientific research on women’s physiques. As part of this research, we have accumulated data on the

physiques of more than 40,000 women of all ages. At the product planning and design stages, several hundred Wacoal designers and pattern makers effectively utilize such research findings in the development of Wacoal’s differentiated, high-value-added products.

However, no matter how effectively we use human science data to develop innerwear with unmatched functionality, comfort, and beauty, such efforts would be meaningless without the advanced skills and technologies needed to manufacture new innerwear products. This is why we insist on manufacturing products at our own factories. To preserve differentiated quality as the greatest value we provide, at our in-house factories in regions worldwide we will continue manufacturing that is deserving of our customers’ trust.

Occasionally, stakeholders inquire about the necessity of having our own factories, but these factories play an essential role in maintaining the high quality of Wacoal products. Passing on skills and securing personnel is certainly not easy. Companies that devote the time and effort to do so and which can manufacture high-quality innerwear have been disappearing in recent years. As a result, Wacoal’s competitive advantage is growing in the global market for midrange to high-end innerwear.

Wacoal has also built a unique system for sales. Given that brassiere sizes comprise the underside and cup sizes of the bust and that brassieres are available in multiple colors, just a single item accounts for a large number of stock keeping units (SKUs). The system for managing aggregate inventories, sales, and production that Wacoal has independently developed for appropriate inventory control would be challenging for others to replicate. Another way in which we provide value is through the consultations offered by our beauty advisors. Worldwide, there are currently more than 8,000 Wacoal beauty advisors, who play an indispensable role in drawing customers’ attention to the merits of Wacoal products and in helping customers choose innerwear that is the perfect fit.

In addition, a distinctive feature of Wacoal’s business model is the fine-tuning of all operations to suit the particular circumstances of each country or region. Innerwear manufacturers cannot adopt the same approach to every market because in respective countries or regions women have different physiques, innerwear needs, values, and aesthetics. This diversity is one of the challenges that

**The Company's greatest asset is the trust of customers worldwide in our brand. This trust is underpinned by high quality.**



innerwear manufacturers face and acts as a significant barrier to industry participation by newcomers. We have also established planning and development bases and production bases outside Japan so that we can realize product creation that is rooted in regions and closely reflects the needs of women everywhere.

Thus, the Wacoal Group's business model is designed to establish regionally rooted operations from product development and production through marketing and combines differentiated business assets. Viewing our business model purely from the perspectives of management efficiency and profitability, there is a tendency to see its features as cost factors. However, this business model has paved the way for Wacoal's growth to date and underpins customers' trust in and endorsement of the Wacoal brand.

At this point, let me stress that we are in no way complacent about our current situation. We face two major tasks: the return to a growth trajectory and the strengthening of our earning power. With those tasks in mind, we will redouble our efforts focused on structural reform and operational efficiency and work unstintingly to achieve continuous enhancement of enterprise value. Also, anticipating and reacting agilely to changes in the business environment, we will deploy management resources based on current market trends and boldly reform our business model.

### The Road Map for Sustained Growth

By not reaching the targets of our previous medium-term management plan, we disappointed shareholders and investors. I believe this shortfall was mainly due to a lack of aggressiveness with our reform measures. In particular, I am sincerely disappointed that our structural reforms failed to turn around the sluggish business results of certain domestic subsidiaries and business divisions.

In June 2019, we released a new medium-term management plan covering the three-year period through fiscal 2022 and announced medium- to long-term management targets for fiscal 2028. Specifically, we aim to achieve net sales including equity-method affiliated companies net sales of ¥300 billion, which breaks down into consolidated net sales of ¥250 billion and equity-method affiliated companies net sales of ¥50 billion, as well as an operating margin and ROE of above 10% in fiscal 2028. Moreover, to enable us to aim for an even higher level of growth, we have set a stretched target of ¥320 billion for net sales including equity-method affiliated companies net sales. As well as serving as a milestone for achieving the management targets for fiscal 2028, the new management plan calls on us to look squarely at reality, expedite reform, and realize robust growth in Japan and overseas during the three-year period.



Under the new plan, the Company will conduct a detailed analysis of the prospects of underperforming businesses and brands and—without making any special exceptions—move forward with decisive reform of the Group's business structure. This will entail Wacoal Holdings Corp. using its overall control of operating companies in Japan and overseas to exercise even greater initiative. Aiming to raise the enterprise value of the Group as a whole, the holding company will take into account overall optimization as it promotes aggressive growth strategies and defensive structural reforms. In Japan, Wacoal Corp. will sustain growth and enhance profitability while rebuilding the profit foundations of other domestic subsidiaries. As for overseas businesses, we will take steps to further expand the scale of businesses and accelerate growth. In addition, the Group will heighten its overall management efficiency by reorganizing production and supply systems at home and abroad. The aforementioned measures will ensure sustained growth, improve the operating margin, and enhance capital efficiency, thereby increasing the enterprise value of the Wacoal Group.

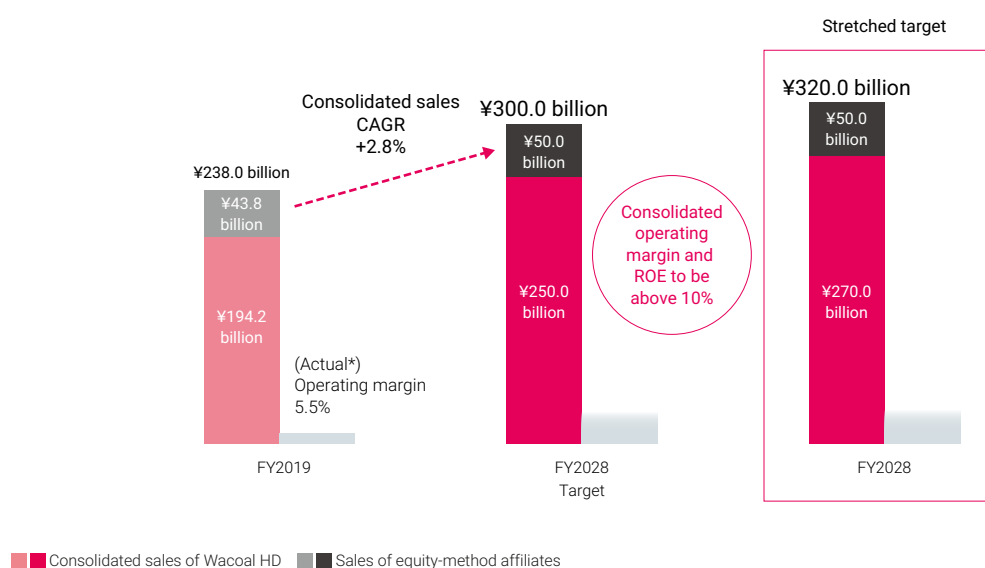
## Our Approach to Enterprise Value and Equity Cost

If we regard companies as public institutions, we have to view enterprise value as comprising both economic and social value. This philosophy is consistent with our vision, which I touched on at the beginning of this message.

The basic requirements for enhancing economic value are sustained growth and an approach to business management that is mindful of the profit margin and capital efficiency. Upon this foundation, we will adopt a medium- to long-term viewpoint and actively seek out investment opportunities for the realization of rapid improvements in growth. Wacoal's business activities provide society and customers with value in the form of beauty, comfort, and health. With these facets as key themes, we will actively consider investments aimed at taking on new businesses. For example, we will strengthen our e-commerce businesses and expand our brand portfolio.

With respect to capital policy, we regard the achievement of ROE that surpasses equity cost and is 6% or

### Medium- to Long-Term Road Map



higher as essential. Achieving ROE that at least surpasses Wacoal's equity cost of 5.6%–5.9% satisfies our minimum obligation to shareholders and investors and is a premise for enhancing enterprise value. Although ROE has yet to reach a satisfactory level, we will work toward its further enhancement through balance sheet-focused business management that improves earning power while reducing total assets. Also, to ensure that shareholders' equity does not swell beyond its current level, while giving priority to investment for future growth, we will appropriately control shareholders' equity by paying stable dividends and promoting the acquisition of treasury stock.

Unfortunately, in recent years Wacoal's price book-value ratio (PBR) has remained below the one-time level. To overcome this situation, first and foremost, we must improve our earning power and profit margin, as I mentioned above. At the same time, I am strongly aware of the need to set out our vision and strategies more clearly to raise the expectations of stakeholders for our future prospects. Accordingly, the Company will highlight the management resources for enterprise value enhancement that the Wacoal Group has at its disposal while increasing the pace of initiatives aimed at the effective utilization of these resources.

Meanwhile, as for social value, we will advance people- and environment-friendly business management that takes ESG factors into consideration. Through its mainstay businesses, Wacoal will help create a richer society in which women can express their personal beauty and live with vitality. We will remain a company that addresses issues related to beauty, comfort, and health and one that is valued by women all over the world.

Further, as a company that has built a value chain based on an independent network that encompasses product planning and development through to material procurement, production, and sales, people are our greatest management resource. With this in mind, we will focus on increasing job satisfaction and developing employee-friendly workplaces. Moreover, we will collaborate closely with suppliers and business partners to ensure adherence to and respect for social norms related to human rights, labor practices, the environment, and ethical matters.

By forging ahead unceasingly toward the "Global Wacoal" goal that has always been central to our vision, we will enhance our enterprise value and thereby meet the expectations of all stakeholders.

September 2019

