

A Message from the Director in Charge of Finance

By putting our management philosophy into practice, we will benefit society and provide stakeholders with substantive value.



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Toward Sustained Enhancement of Enterprise Value

“Mutual trust is not complicated. To put that another way, all Wacoal employees should become individuals who are trusted by Wacoal’s business associates and other members of society.”

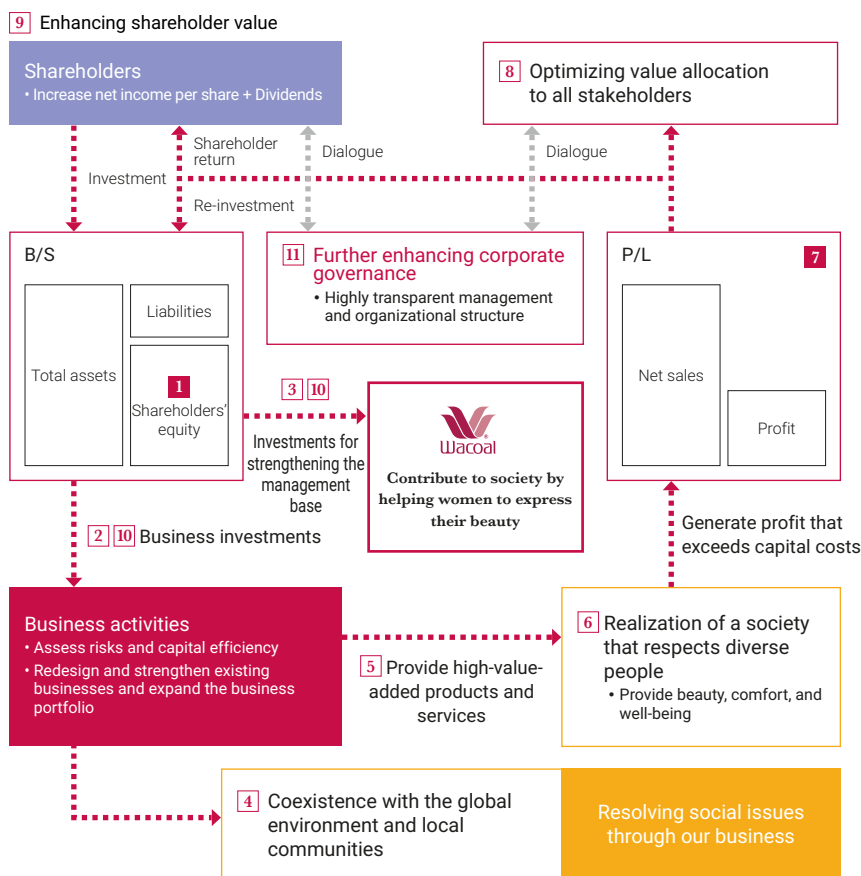
Our founder Koichi Tsukamoto used the above words to offer employees a straightforward explanation of mutual trust, which was an integral part of his own management philosophy and is incorporated into our vision. Wacoal’s founder repeatedly impressed upon employees that the Company should earn the trust of all stakeholders in order to heighten its existential value. We believe that enterprise value is the sum of the endorsement that Wacoal garners from society and all stakeholders; in other words, enterprise value is aggregated mutual trust. Our mission, which is to contribute to society by helping women to express their beauty, is also a core component of our management

philosophy. By putting this component of our management philosophy into practice, we will earn greater trust from all stakeholders.

Our Value Creation Process

Aiming to enhance enterprise value, Wacoal is actively investing to realize growth and strengthen management foundations while stepping up the implementation of initiatives focused on coexistence with the environment and society. Investment in people—the most important management resource for the advancement of business activities—is critical for the Company’s medium- to long-term growth. By continuously developing and bringing to market high-value-added products and services, we will work to generate a level of profit that consistently is above equity cost. At the same time, through the development of governance that maintains and upgrades our value creation process, we will realize sustained enhancement of enterprise value.

Concept of Resource Allocation Toward Sustainable Corporate Value Improvement



Business cycle for sustainable improvement of corporate value



Check whether the business cycle is appropriately circulating

11 Further enhancing corporate governance

Profit Generation Aimed at ROE of 6%

Our new medium-term management plan sets out the three basic objectives of our capital policy.

Basic Objectives of Capital Policy

- ① Increase shareholder value by improving ROE
- ② Maintain a sound balance sheet (shareholders' equity levels)
- ③ Implement measures for enhanced shareholder returns

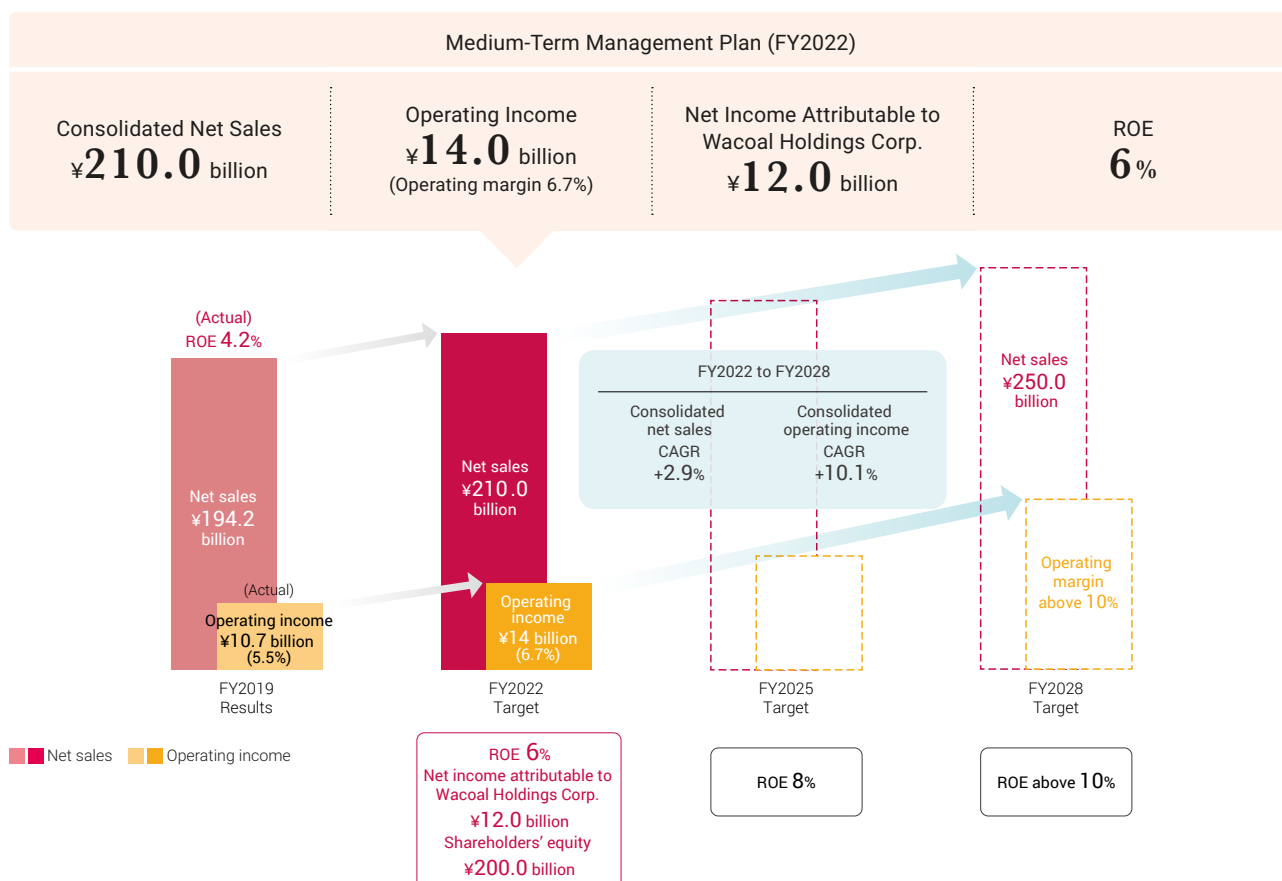
The first basic capital policy objective calls for continuous enhancement of ROE through improved profitability and capital efficiency. While Wacoal's equity cost is currently between 5.6% and 5.9%, ROE in real terms, excluding the effects of impairment and other factors, was just 4.2% in fiscal 2019, the year ended March 31, 2019. Also, our price book-value ratio (PBR) is below the one-time level. The improvement of ROE to a level above equity cost by realizing the growth strategies of

the new management plan is a pressing task. Therefore, our financial targets are to increase ROE to at least 6.0% in fiscal 2022, the year ending March 31, 2022, and the new plan's final fiscal year, and then to above 10% over the long term.

ROE has three components: profitability (profit margin), capital efficiency (total asset turnover rate), and leverage. The *Ito Review** points out that the low ROE of Japanese companies is in large part due to the narrowness of profit margins on sales—in other words, the weakness of earning power. Improved profitability will produce the greatest impact on Wacoal's ROE. For this reason, we have selected the operating margin as a key indicator in efforts to achieve our ROE goals. We aim to raise the operating margin from fiscal 2019's level of 5.5% (in real terms, excluding the effects of impairment and other factors) to around 7% in the final year of the new plan and then to above 10% over the long term.

* Compiled by the Ministry of Economy, Trade and Industry, the *Ito Review of Competitiveness and Incentives for Sustainable Growth—Building Favorable Relationships between Companies and Investors—Final Report* was released in August 2014. The review was chaired by Professor Kunio Ito, who was a professor at Hitotsubashi University at the time of its undertaking. The final report is commonly known as the *Ito Review*.

Numerical Targets for New Medium-Term Management Plan



Operating Margin Enhancement: Japan (Wacoal Corp. and Domestic Subsidiaries)

The domestic wholesale business for department stores and general merchandise stores has traditionally been the mainstay of Wacoal Corp. As consumer behavior changes, however, directly managed stores and e-commerce are accounting for a larger share of our operations. Under the previous management plan, we were able to achieve improvements through reorganization that increased the efficiency of our wholesale business and enhanced the profitability of our retail business.

One measure of the new plan is to raise productivity per employee. Specifically, with a focus on back-office operations, we will reform work processes to realize operating income per office worker that is approximately 30% higher than at present. Further, we plan to improve sales per beauty advisor (Wacoal sales assistant) by increasing the efficiency of incidental store work, such as product unpacking and stocktaking. Also, we will reduce product groups and product varieties with the aim of lowering production and technology development costs and improving inventory turnover rates.

In the medium-to-long term, digitization will play a key role in efforts to improve our profit margin. At present, we are digitizing customer records and installing the *3D smart & try* system, which combines a 3D body scanner and an AI-enabled customer-consultation service. These initiatives will not only provide added value that competitors cannot match but also contribute to cost reductions by improving work efficiency and lowering product return rates. We will proceed with the verification of these initiatives so that we can benefit from them as soon as possible.

Meanwhile, domestic subsidiaries that fell significantly short of numerical targets during the previous plan and recorded operating losses in fiscal 2019 have demonstrated that conventional approaches to sales and marketing are no longer effective and that the time has come to reform their business models. Through fundamental reform of the operations of these subsidiaries, Wacoal will lay foundations that enable them to begin posting operating income consistently during the first half of the new three-year management plan.

Operating Margin Maintenance: Overseas

Reflecting differences in trading conditions and business practices, our operating margins overseas vary depending on the region. In North America and Europe, we have secured high operating margins that are above 10%. As for China, where we use the same sales system as in Japan by

deploying sales personnel to directly managed sales areas in department stores, the operating margin has improved to the 6% level thanks to rapid expansion of the e-commerce business.

On the other hand, the department store business format is in decline across all mainstay overseas markets. During the period of the previous management plan, in North America, Europe, and China, the total net sales increases of e-commerce businesses were larger in monetary terms than the total net sales increases of brick-and-mortar stores. During the period of the new management plan, we expect this trend to continue. Consequently, our degree of success in strengthening e-commerce businesses will be a major determinant of overseas business growth.

Accordingly, during the three fiscal years of the new plan we will give priority to investment in e-commerce aimed at realizing vigorous growth. The Company will bolster alliances with major business partners, reorganize in-house websites, and actively invest in advertising. Further, we will realign offices, logistics warehouses, core IT systems, and other business infrastructure to embed e-commerce in our business models in respective countries. While giving priority to this series of investments for growth, we will maintain operating margins at their current levels.

Operating Margin Enhancement: Global Optimization

Wacoal's overseas business operations are establishing optimal planning, production, and sales capabilities in each country and region. Tasks going forward, however, include appropriate deployment of factories that can provide effective supplies of high-value-added products, increased utilization of the raw materials factory in Thailand, and the development of supply capabilities for such growth markets as China and India.

Under the new management plan and with its sights set on enhancing management efficiency across the whole Group, Wacoal will begin examining the establishment of a production management system that transcends the boundaries of brands and regional businesses to supply these brands and businesses with competitive products and materials. We will optimize supply capabilities by reorganizing factories based on the analysis of future supply and demand in relation to each business.

Also, we have begun initiatives to strengthen the branding and marketing of certain high-value-added products through collaboration among operations in Japan, China, and other Asian countries. Brassieres emphasizing comfort, such as

GOCOCi, overcome differences in physique and can be marketed laterally because they have wider fit ranges. For example, by enabling the introduction of popular products from Japan, such collaboration promises to help businesses in China appeal more to and thereby rapidly acquire younger customers. We will enhance business efficiency on a global level by further evolving our Think Globally, Act Locally approach to valuation creation and strengthening ties among operations in respective countries.

Reform through Balance Sheet-Focused Business Management

Our second basic capital policy objective is to maintain a sound balance sheet. In other words, we aim to maintain shareholders' equity at a level that is commensurate with risks attendant on business activities and that is needed for the implementation of capital and growth investment.

The most significant issue in relation to Wacoal's balance sheet is that many years of internal reserve accumulation has resulted in strategic shareholdings that account for 20% of total assets. Viewing the reduction of strategic shareholdings as a priority task, we plan to dispose of strategic shareholdings worth at least ¥20 billion—which represents one-third of the total—during the period of the new management plan. In conjunction with these efforts, we will lower inventory levels by reducing product varieties.

Wacoal's final basic capital policy objective is to enhance shareholder returns even further. However, we will premise these measures on the securing of capital for growth investment and free cash flow levels.

Based on the three aforementioned basic objectives, our capital policy for the three years of the new management plan is as follows.

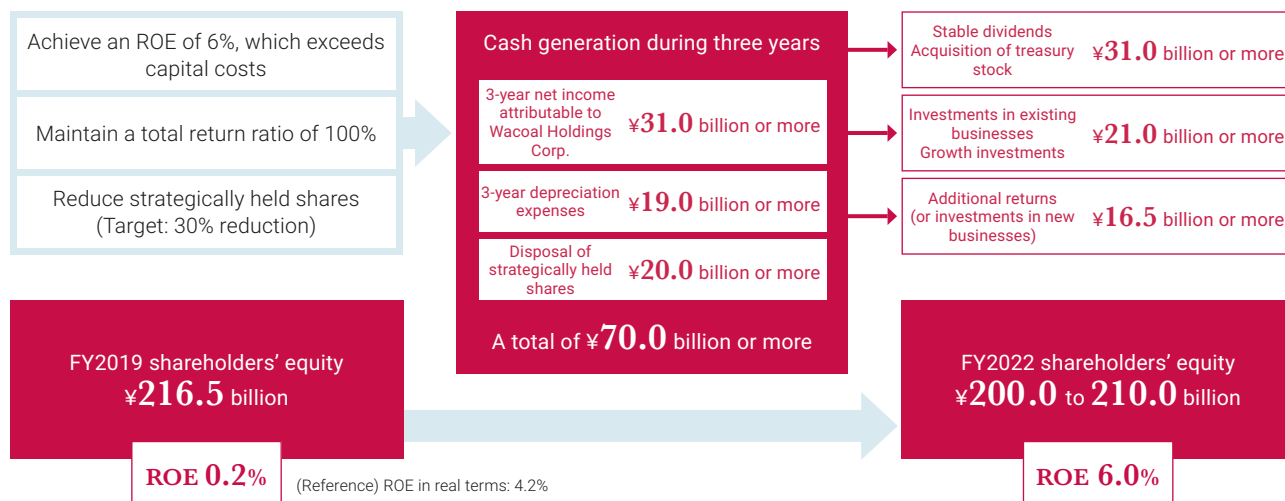
Over three fiscal years, we will achieve an increase in cumulative cash inflows of at least ¥50 billion (net income attributable to Wacoal Holdings Corp.: ¥31 billion; depreciation and amortization: ¥19 billion) by enhancing profitability in business activities and reducing working capital. Combined with the aforementioned disposal of strategic shareholdings, these measures will generate total cash of ¥70 billion or more.

As for cash outflows, we have earmarked ¥21 billion for capital investment in such areas as IT system renewal and the establishment of e-commerce sites in Japan and overseas. Through stable dividend payments and the flexible purchase of treasury stock, we will provide returns to shareholders of about ¥31 billion and maintain a total payout ratio of 100%.

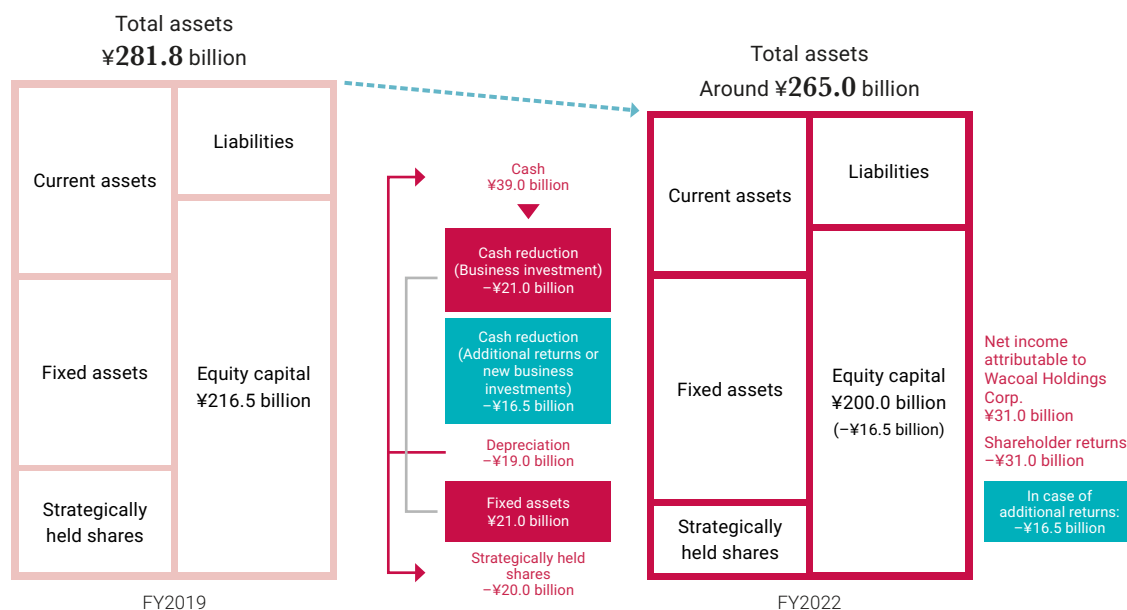
Lastly, we plan to use the ¥20 billion generated from the disposal of strategic shareholdings to provide additional returns to shareholders. In using this cash, however, we will give priority to any investment opportunities that promise return on investment in line with our ROE target and rapid improvements in growth. We intend to use our own capital to cover all the aforementioned initiatives. With respect to investment opportunities, however, we will consider the use of debt as required.

As a result of these initiatives, we forecast shareholders' equity of between ¥200 billion and ¥210 billion at the end of fiscal 2022. While curbing increases in total assets by doing our utmost to use our own capital, we will steadily reduce our own capital. Also, we will improve inventory turnover rates to

Improving Capital Efficiency and Enriching Shareholder Returns



Estimate of the Balance Sheet at the End of FY2022



Note: Starting from FY2020, in line with the changes in U.S. Accounting Standards, the accounting method of lease transactions is scheduled to change. Accordingly, there will be an increase in fixed assets and liabilities. However, the above conceptual diagram does not reflect it.

minimize increases in inventories. We are committed to stepping up the pace of initiatives aimed at realizing an optimized balance sheet that ensures we are able to expand businesses and that is both highly profitable and lean.

A New Growth Phase

At the same time as releasing the new management plan, we announced our target profile for fiscal 2028. Specifically, looking ahead nine fiscal years we aim to achieve net sales, including equity-method affiliated companies sales, of ¥300 billion and to lift the operating margin and ROE above 10%.

Some critics view the future of the domestic innerwear business pessimistically. However, I see things differently. Admittedly, the innerwear industry is undergoing consolidation and sales channels are being transformed. Until now, the closure of a brick-and-mortar store has resulted in the loss of customers; however, moving forward, we intend to leverage the full-fledged emergence of e-commerce and omni-channel services to renew our customer relationships so that they are not only more interactive but also deeper, broader, and longer. As well as being an excellent opportunity for familiarizing

customers with a new side of Wacoal, the challenge of building such relationships will drive us into a new growth phase. Also, by further evolving the advantages that it has cultivated, Wacoal can continue catering to customers' increasingly diverse preferences, new demand associated with the increasing empowerment of women in society, and the desire of everyone for good health and self-realization.

The three fiscal years of the new management plan represent an important period in which we can bring the future I have just outlined much closer to hand. We will rigorously optimize operations on a global basis and ensure that each region and each sales channel realize growth. With respect to financial strategy, we aim to lift the PBR above the one-time level as soon as possible by generating profit that surpasses equity cost and continuously enhancing enterprise value. As we mark our 70th anniversary by embarking upon ambitious initiatives to evolve and advance into a new growth phase, I would like to ask all stakeholders for their continued support.

September 2019