

A Message from the President



Hironobu Yasuhara

Hironobu Yasuhara
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Wacoal Holdings Corp.

With our sights set on a “Global Wacoal,”
we will move forward tirelessly to enhance
enterprise value.

A Summary of Our Medium-Term Management Plan's
First Fiscal Year

In June 2019, the Wacoal Group announced a three-year medium-term management plan, ending in fiscal 2022, as well as long-term management targets for fiscal 2028. We established the current management plan to serve as a milestone for achieving these management targets. With this in mind, we will look squarely at reality, expedite bold reform, and get on track for robust growth in Japan and overseas during the plan's term.

Against this backdrop, in the plan's first fiscal year revenues declined while profit rose. Consolidated net sales decreased 3.8% year on year, to ¥186.8 billion, coming up short of our ¥200.0 billion target. Although operating income was up 35.9% year on year, if the previous fiscal year's recognition of impairment charges on intangible assets of approximately ¥5.8 billion (mainly impairment charges on goodwill for a subsidiary) are taken into account, effective operating income decreased year on year and was roughly ¥4.4 billion below our target of ¥11.0 billion.

The main reasons for nonachievement of the operating income target were a decrease in revenues that reflected stagnant consumer spending following a consumption tax hike in October 2019, the incorporation of an operating loss and the recognition of one-time expenses due to the acquisition of Intimates Online, Inc., and the recognition of an impairment loss on fixed assets accompanying the sluggish business performance of a materials company in Thailand. Moreover, in the fourth quarter the Group's business activities worldwide were significantly affected by curfews and the suspension of store operations that accompanied the spread of COVID-19.

COVID-19 Pandemic: Impact and Outlook

I believe that a little more time is required before we can reasonably assess the extent to which the COVID-19 pandemic is likely to affect our medium- to long-term performance. While I have been engaged in corporate

management for many years, this is the first time that I have experienced a situation in which all of the countries and regions around the world where our business operates have been impacted simultaneously. Furthermore, given the marked differences in the situations of each country and region, the manner in which some type of normality will return remains uncertain.

In such circumstances, analysis of how customers' awareness and values are likely to change is important. However, as things do not always go as predicted, we need to base decisions on somewhat longer time frames. Further, in respective countries and regions there are differences in the spread of COVID-19 as well as in patterns of consumption. Therefore, rather than focusing on hasty reactions to individual situations, I am currently developing a wide range of scenarios and proceeding with preparations so that we can respond quickly to whichever scenario eventually materializes.

Any consideration of long-term business conditions post-COVID-19 must be premised on an understanding that things will not “return to normal.” Consequently, the new business conditions will not only call for significant changes in products, marketing methods, and points of contact with customers but also in Wacoal as a corporate group. We must consider whether approaches once believed to be advantageous are now fit for purpose. For example, will sales through consultations with beauty advisors—which have been one of our differentiating strengths—be feasible in a post-COVID-19 world? The status of attributes that until now we have viewed as assets or as having value may be shifting. Therefore, we need to reassess our value chain exhaustively.

On the other hand, witnessing the dramatic changes resulting from COVID-19 has clarified what we should do and what we should stop doing, enabling us to step up the pace of reforms aimed at realizing our long-term vision. Rather than seeing the current situation in an exclusively negative light, I am committed to doing everything in my power to ensure that we can present a reborn Wacoal to all stakeholders in the aftermath of the crisis.

Our Policies for Coping with the Spread of COVID-19

Basic policy

Give top priority to the health and safety of customers, employees, and business partners. (We recognize that the balance between maintaining such services as trial fittings and consideration of health and safety is especially important.)

Short-term policy

Thoroughly reduce costs and ensure the stability of the Company's financial base with the deteriorating business conditions in mind

1. Carry out a review of the measures and expenditure plans that have been implemented so far across all business domains
2. Strengthen liquidity on hand in preparation for the prolongation of the COVID-19 pandemic
3. Adjust production to avoid excess inventory caused by a decline in sales

Medium- to long-term policies

Thoroughly inspect the value chain and implement reforms: A turning point toward a highly profitable management structure

1. Review the current cost structure (Promote initiatives to reduce fixed costs)
2. Accelerate our digital transformation efforts both in Japan and overseas
3. Review and reorganize points of contact with customers (to respond to the changes in major sales channels)
4. Develop products and services that customers expect in new lifestyles and strengthen our ability to respond to new customer needs and sales styles

Wacoal's Management Philosophy and Existential Value

The COVID-19 crisis has given me an opportunity to reevaluate Wacoal's management philosophy and the Company's value to society. Given that the post-COVID-19 era may see transformed lifestyles and values, we have to ask ourselves important questions. Where should we aim to go? What should we change? Also, what must not be changed?

Endeavoring to contribute to society by helping women to express their beauty expresses our founding spirit and is at the core of our management philosophy. No matter what type of social change or crisis occurs, this mission will never change. Wacoal has created a unique innerwear culture by adding new value to innerwear, an item once little more than a commodity. Through the development and marketing of pioneering products that garner the love of customers, we have helped create a society in which women are lively and radiant. The aforementioned achievements represent existential value that the Group must continue to protect.

That said, the definitions of female beauty, as well as the types of beauty women seek, change with the times. For this reason, our products and services will not earn endorsement if they stay the same. In particular, it is not difficult to envision a post-COVID-19 society in which changes in women's lifestyles lead to changes in the types of innerwear sought. Further, Wacoal might be able to support women's day-to-day beauty and vitality in fields beyond innerwear. In other words, we should steadily promote business development that is aimed at heightening our existential value by, for example, creating innerwear based on novel concepts or by developing businesses outside the innerwear field.

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.

Through business activities stretching back more than 70 years, Wacoal has accumulated many different types of intangible assets. By leveraging such assets, we will provide society and customers with value in the form of beauty, comfort, and health. With these facets as key themes, we will take on ambitious initiatives and new business fields, thereby providing women with new value.

Long-Term Vision and Growth Strategy

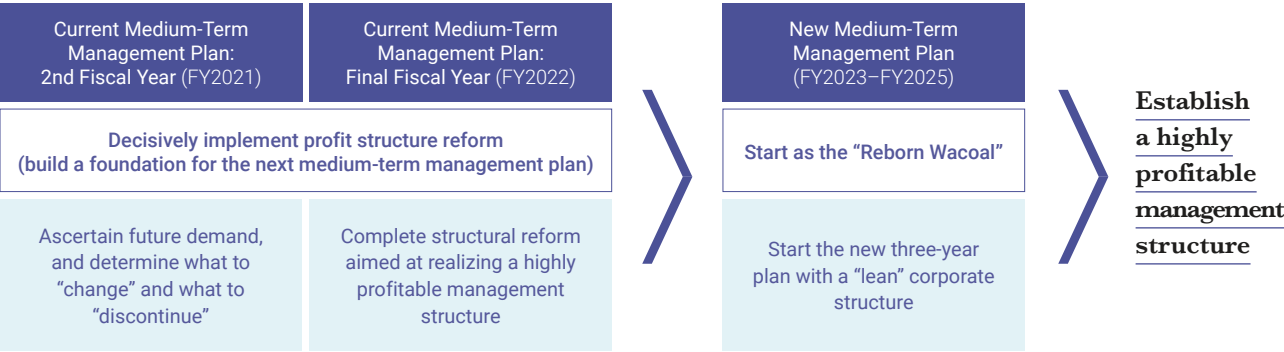
Last year, we prepared a long-term vision to coincide with the launch of our medium-term management plan. At the same time, we set out a new target profile by announcing our vision of a "Global Wacoal." This redefined target profile is based on the vision at the time of our founding, which called on us to continue forging ahead tirelessly toward a "Global Wacoal." As with the management philosophy mentioned earlier, our vision is something that will not change.

Even though business conditions remain highly uncertain due to COVID-19, Wacoal's Group companies worldwide have to carefully monitor their situations and then take timely, precise measures accordingly. With our vision providing them with both a guide going forward and a common Groupwide slogan, Group companies will redouble collaborative efforts to advance initiatives for growth. More specifically, they will learn from each other's experience and know-how and share examples of successful initiatives.

The overriding goal of our current management plan is to cater to the growing trend toward digitization and personalization. Post-COVID-19, this trend is expected to accelerate around the world. For several years, Wacoal has been advancing an omni-channel strategy that integrates online and off-line operations. For example, May 2019 saw the opening in Tokyo's fashionable Omotesando area of a store incorporating a leading-edge customer service system enabled by 3D measurement and AI technologies. This new store has established a positive reputation among customers. Subsequently, we introduced the system to five other stores (as of March 31, 2020). In spring 2020, we were just about to verify the benefits of the system and speed up investment when stores suspended operations due to COVID-19. As a result, we expect the progress of this initiative to be slightly delayed. Nonetheless, looking over the global innerwear industry, none of our peers have evolved digitization to the extent we have. In this field, we will continue steadily building our lead. Moreover, as companies look ahead to the

Current Medium-Term Management Plan: Initiative Going Forward

With an eye on the next three-year plan, decisively implement "profit structure reform" during the current medium-term management plan period



post-COVID-19 era, "contactless" is becoming a watchword. Consequently, we have been receiving inquiries from companies in an array of different industries that want to use our 3D measurement technology. Moreover, we will strengthen open innovation initiatives to develop new sources of profit.

Other initiatives include the bolstering of the e-commerce business through the 2019 acquisition of Intimates Online in the United States, our main overseas market. In recent years, the company has been growing rapidly in the country's innerwear sector thanks to the popularity of digitally native vertical brands (DNVBs) among millennials. Plans call for increasing the business scale of the new Group company and moving it into the black as soon as possible. Going forward, the Wacoal Group will introduce the company's business model to other Group companies worldwide. Surveying the global market, I believe differences among countries and regions will emerge in terms of the speed and nature of changes in the roles of off-line and online operations. However, the digitization trend itself is irreversible. By ensuring that we are strictly customer-oriented and by proactively leveraging digital technologies, we will realize the provision of new services and value.

Growth Scenario and Performance Forecast

At the end of July 2020, we announced a performance forecast for the fiscal year ending March 31, 2021. The forecast includes a 15.0% year-on-year decline in consolidated net sales to ¥158.0 billion and an operating loss of ¥5.0 billion. However, taking into consideration the extreme unpredictability of COVID-19's ultimate impact as well as concerns over a potential slump in consumer spending

and deterioration in the employment market and personal income, these performance forecast figures have inherently high levels of upside and downside risk.

In the current fiscal year, which is likely to be a very challenging 12 months, we will carefully analyze the effects of the COVID-19 pandemic and firm up measures in anticipation of the post-COVID-19 era. Allow me to repeat that we are already advancing initiatives in response to the emergence of a major trend toward digitization and personalization in the market. While we have extended the periods for verifying the benefits of several initiatives already introduced, we intend to steadily increase the speed of such initiatives. Further, in the post-COVID-19 era the lifestyles of women and the products and services that they seek are sure to change significantly. Therefore, based on anticipation and painstaking analysis of such changes, we will consider what types of added value and services we are best qualified to offer.

As for the Wacoal Group's profit structure, we are in the midst of reforming the businesses of underperforming subsidiaries. Due to the effects of COVID-19, however, more time is needed to verify the benefits of these efforts. Nonetheless, in cases where benefits are already clear, we will move forward with reforms decisively.

Upon completion of these reforms in the current fiscal year, in fiscal 2022, which is the final year of the current management plan, we will rapidly lay the foundations for our next three-year plan.

In closing, I would like to ask all of our stakeholders for their continued support and understanding, particularly with regard to the challenges we face in achieving near-term business results that fulfill their expectations.

September 2020