A Message from the Director in Charge of Finance

# Anticipating the post-COVID-19 era, we will advance financial strategy with a strong sense of crisis.

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RENEWED GROWTH

## Fiscal 2020 Business Results Evaluation

In fiscal 2020, the year ended March 31, 2020, consolidated net sales and operating income did not reach our initial targets or the revised targets we announced in January 2020. The primary reason for missing these targets was a lackluster performance by the Wacoal Business (Domestic). A consumption tax hike in October 2019 entrenched a long-term slump in consumer spending, which was then compounded by a drop in store visits and a decrease in demand from visitors to Japan as the public refrained from going outdoors due to the spread of COVID-19 from March 2020 onward.

Thus, the external environment undoubtedly had a significant impact on our performance. However, I believe the performance revealed a more fundamental issue that stemmed from the delay in reforming the Wacoal Group's profit structure. Launched in fiscal 2020, our current medium-term management plan calls on the Wacoal Business (Domestic) to realize renewed growth. To this end, we worked to enhance the operating margin. I view our actual business results—which were a long way from renewed growth—as representing an extremely unfavorable performance that merits serious reflection.

Given that COVID-19 is wreaking havoc worldwide and the prospect of bringing it under control has yet to emerge, we will inevitably experience a significant impact on our performance in fiscal 2021, the year ending March 31, 2021. Thus, we face a challenging situation, the likes of which we have not experienced before. As the director in charge of finance, I have a weighty responsibility that obliges me not only to enable the Wacoal Group to overcome this unprecedented crisis but also to use it as a transition phase that fundamentally strengthens the Group's profitability.

Last year, the Group celebrated its 70th anniversary. After suffering many difficulties in establishing the Group's financial foundations, our founder Koichi Tsukamoto and his colleagues managed to build the robust financial position we enjoy today. Passing on the trust and innovation-focused mindset that our predecessors cultivated is one of our main duties. With this in mind, we will tackle reforms with a strong sense of crisis.

## Fiscal 2021 Emergency Measures

While giving first priority to the health and safety of our customers, business partners, and employees, we will take emergency measures in response to the challenging environment. Specifically, we will reduce advertising expenses and other business expenses as well as fixed costs and reschedule the implementation of new investments. Further, a meeting of the Board of Directors convened in May 2020 approved a resolution to lower the compensation of the directors and Audit & Supervisory Board members of Wacoal Holdings Corp. and Wacoal Corp., excluding that of outside directors. By drastically revising expenditure plans through such steps and by enlarging facilities for borrowing from financial institutions, we are securing liquidity on hand for Group companies. At the same time, we are adjusting production at all subsidiaries so that lower sales do not lead to excessive inventory levels.

Further, envisioning the post-COVID-19 era, we will clarify the things we should do, the things we should change, and the things we should stop doing. By eliminating excess and heightening productivity even further, we will raise the operating income that each employee produces and thereby restore profitability Groupwide. Meanwhile, for domestic subsidiaries that have been seeking rejuvenation through fundamental reform of their businesses, I believe that even more drastic measures are needed. Since last year, we have been reforming the business models of domestic subsidiaries. Partly due to COVID-19, it has become apparent that we have even less time left to reform these subsidiaries. During the current fiscal year, we will identify businesses whose surrounding environments have clearly changed as well as businesses that may be unable to maintain their independence amid a general slump in consumer spending, rigorously evaluate these businesses from the viewpoint of Groupwide optimization, and then set definite time limits for withdrawal and reform. Prepared and willing to recognize the one-time losses that such drastic reform will entail, we will complete

Consolidated Performance Overview

(¥ billion)

| | 2020/3 results | FY2020 target (versus target) | FY2020 revised target* (versus target) |
|---|---|---|---|
| Net Sales | 186.8 | 200.0 (−13.2) | 191.0 (−4.2) |
| Operating Income (Operating Margin) | 6.6 (3.6%) | 11.0 (−4.4) (5.5%) | 7.0 (−0.4) (3.7%) |
| Net Income Attributable to Wacoal Holdings Corp. | 3.5 | 9.0 (−5.5) | 6.5 (−3.0) |
| ROE | 1.6% | — | — |

* Announced in January 2020

the reform of domestic subsidiaries during fiscal 2022, the final year of the current management plan.

As we move forward with such measures, it is essential for the senior management team to cultivate a healthy sense of crisis in the Group through proactive communication with all employees. At the same time, we must return to our management philosophy and ensure that it is shared and internalized by all Group employees. Regarding the post-COVID-19 world, we are not expecting a return to our previous environment. We need to adopt a medium- to long-term perspective; anticipate changes in customers, markets, and our employees' work styles; and take measures accordingly. To facilitate these measures, moreover, the Group must make a concerted effort to revisit its spirit of mutual trust.

### Progress in Relation to Capital Policy

Our current plan sets out the following three basic objectives of 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**

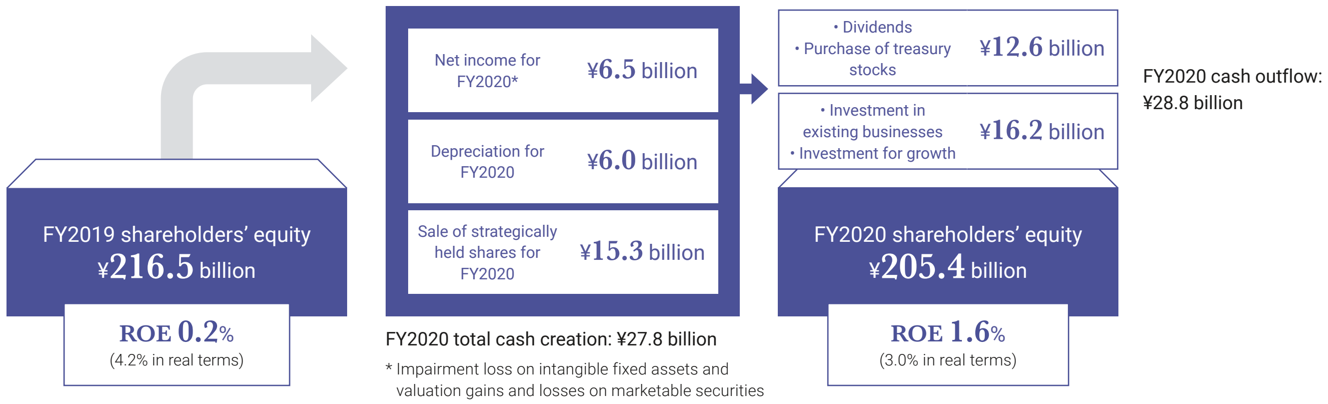
As we endeavor to maintain financial soundness, the improvement of ROE to a level above equity cost remains a pressing task. From a short-term viewpoint, it has to be said that improving ROE will be difficult due to the effects of COVID-19. In the long term, however, our target of raising ROE above 10% has not changed. Our main approaches to enhancing ROE entail improving profitability and asset efficiency. In these efforts, we are placing a particular emphasis on advancing long-term growth strategies to increase the operating margin. Accordingly, we will establish a highly profitable business structure by expediting reforms that anticipate the post-COVID-19 era.

The outlook for the domestic innerwear business is extremely uncertain. Sales channels may undergo radical transformation. However, as I mentioned in last year's report, by advancing personalization initiatives that take advantage of digitization, we will renew our customer relationships so that they are not only more interactive but also deeper, broader, and longer. For example, these initiatives will strengthen the integration of online and off-line operations and roll out omni-channel services in earnest. The building of relationships in such ways is undoubtedly the challenge we must tackle to reach a new growth phase, and I think the COVID-19 pandemic has made this fact clearer than ever. Without being constrained by current circumstances, we will take on reforms with even greater speed and determination.

In fiscal 2020, we advanced the omni-channel strategy and personalization initiatives within the scope of

FY2020 progress in relation to financial policies

**Implemented growth investments to strengthen e-commerce in the U.S.; kept the total payout ratio above 100%**




FY2020 total cash creation: ¥27.8 billion

* Impairment loss on intangible fixed assets and valuation gains and losses on marketable securities and investments have not been taken into account in the calculation of net income.

investment plans and other plans. Further, total investment in the first fiscal year of the current management plan rose to approximately ¥16.2 billion because our acquisition of Intimates Online, Inc., in July 2019, was not a prospect when we were preparing the current management plan. While the aforementioned initiatives are not yet at a stage where they can produce benefits, we must not slacken the speed of efforts focused on ambitious goals. For this reason, we will continue to give priority to investments in growth strategies. Furthermore, the Group will implement M&As if they promise to enhance its business value.

Meanwhile, with respect to asset efficiency improvement, we will dispose of strategic shareholdings worth at least ¥20.0 billion during the three fiscal years of the current management plan. In the plan's first fiscal year, we disposed of strategic shareholdings worth ¥13.6 billion (This figure was calculated by using the book value on March 31, 2019. Actual proceeds from the sale were ¥15.3 billion.).

As for returns to shareholders, our policy of providing stable dividend payments and purchasing treasury stock flexibly is unchanged. In fiscal 2020, acquisition of treasury stock was close to ¥7.7 billion. Partly due to the effects of the COVID-19 pandemic, however, dividends per share declined ¥12.00 year on year, to ¥60.00 per share. Rather than resorting to extreme measures, we are placing emphasis on the continued provision of stable dividend payments. We want to continue providing dividend payments that maintain the confidence of shareholders. In addition, we will make decisions on the acquisition of treasury stock in light of in-depth situational analysis.

Going forward, continuing to seek a level of ROE that is above equity cost, we will reduce equity cost by utilizing debt and other measures within a scope that does not compromise balance sheet soundness. In conjunction with these efforts, we will improve inventory turnover rates to minimize increases in inventories. The Group will advance initiatives aimed at realizing an optimized balance sheet that enables business expansion and which is highly profitable and lean.

### Toward Our Target Profile

At the beginning of fiscal 2020, along with releasing the current management plan, we announced the achievement of consolidated net sales of ¥300.0 billion, including the sales of equity-method affiliated companies (overseas joint ventures), and the lifting of the operating margin and ROE above 10% as long-term management targets for fiscal 2028.

With the senior management team responding to challenging conditions by fostering a Groupwide sense of crisis, in the area of finance we must demonstrate a similarly keen sense of crisis as we implement strategies in pursuit of our target profile. While it goes without saying that we need to advance growth strategies, we must also ramp up the pace of business reform. The current environment makes it even more important that the Group does not pass on a negative legacy to the next generation. Admittedly, the Group's robust financial position led to some complacency in-house, but I believe the COVID-19 pandemic has provided us with an excellent opportunity to eliminate the possibility of leaving behind a negative legacy.

As the Wacoal Group responds to the present environment's unprecedented challenges by launching a concerted drive toward the realization of its target profile, I would like to ask shareholders, investors, and all of our other stakeholders for their continued support.

September 2020