

Anticipating a Post-COVID-19 Society
(2) The Wacoal Business (Overseas)



Through concerted Groupwide initiatives, overseas businesses will expand and grow.

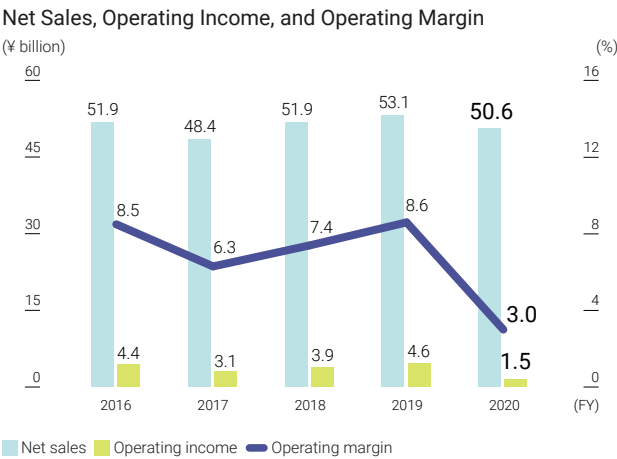
Mitsuru Sekiguchi
Corporate Officer in charge of Group International Business
Wacoal Holdings Corp.
Director and Corporate Officer and General Manager of Global Division
Wacoal Corp.

Fiscal 2020 Performance

Net sales	¥50.6 billion (−4.8% YoY)
Operating income	¥1.5 billion (−67.4% YoY)
Operating margin	3.0% (−5.6pt YoY)

Achievements and Issues in Our Plan's First Fiscal Year and Initiatives Going Forward

In fiscal 2020, the year ended March 31, 2020, the overseas business recorded extremely disappointing results, I am afraid to say. Although its e-commerce businesses are growing steadily in countries worldwide, the overseas business is similar to domestic businesses in that it has a structure centered on department stores, general merchandise stores, specialty stores, and other brick-and-mortar stores. Consequently, in respective countries the management of the overseas business was severely impacted by a slump in its



mainstay department store sales channel—primarily in North America and Europe—and by stores being forced to suspend store operations due to lockdowns or equivalent restrictions that countries worldwide imposed in response to the spread of COVID-19.

This operating environment makes it necessary for the overseas business to shift further toward the e-commerce business. Accordingly, we will increase the speed of our efforts to strengthen the e-commerce business—one of the core tasks set out in the current medium-term management plan.

One particularly noteworthy achievement in fiscal 2020 was stable growth in the net sales and operating income of

businesses in China, attributable mainly to the e-commerce business. Going forward, we will target millennials and Generation Z customers in China by proactively introducing and increasing rollouts of product lineups available in Japan, such as *amphi*-brand products. In other parts of Asia, meanwhile, progress was unsatisfactory, even allowing for the issue of our late participation in the e-commerce business. Ultimately, the spread of COVID-19 significantly affected businesses in other parts of Asia, and I believe our performance in this region calls for serious reflection.

As for businesses in the United States, in July 2019 we acquired Intimates Online, Inc., with a view to further growth. This acquisition is enabling us to capture a share of the millennial and Generation Z market, which we were unable to access. Our first priority is to rapidly put the start-up company on a growth trajectory so that it breaks even on an operating basis in fiscal 2022. Specifically, we are increasing the company's management efficiency by integrating and consolidating logistics infrastructure and back-office operations. Looking slightly further ahead, plans call for the introduction to the company of such intangibles as the manufacturing and product-planning know-how that Wacoal America, Inc., has cultivated. At the same time, we will laterally introduce Intimates Online's digital marketing know-how across our organization with the aim of capturing demand from customers in younger generations, a market segment that has been challenging for us. In these ways, we will realize mutual synergy benefits, thereby lifting the basic level of businesses in the United States as a whole.

Regarding businesses in Europe, the United Kingdom accounts for the lion's share of sales. Amid a slowdown of existing sales channels in the country, we completed a renewal of our in-house e-commerce website and began operation of the renewed website in September 2019. With the exception of the U.K. market, we have yet to adequately penetrate the markets of European countries. In Europe alone, we will expand and enhance brand portfolios and marketing based on each region's characteristics rather than on sales channels. In this way, we will steadily expand our business in the region. In particular, we view Germany as a priority region due to the magnitude of the country's market. Therefore, we will build business foundations in the country by investing human, physical, and financial resources based on a time frame stretching between five and 10 years into the future.

Long-Term Global Strategy—2030 Vision and a "Global Wacoal"

The Global Division of Wacoal Corp. has set ¥150.0 billion as a target for overseas net sales in 10 years' time. To this end, we will realize discontinuous growth through a combination of effective growth investment in countries and regions with small-scale businesses and M&As with companies whose compatibility with our existing businesses has been rigorously analyzed. When envisioning the long-term growth of the

overseas business, it is important to formulate growth strategies for each region, each brand, and each sales channel. For example, in the United States—the world's largest and most advanced market—the achievement of growth will be determined by whether or not Wacoal America and Intimates Online can rapidly realize synergy benefits and combine their online and off-line operations to reach a broad customer group. If the companies can do this, I believe that the business can grow and increase net sales from the current level of around ¥20.0 billion to between ¥30.0 billion and ¥40.0 billion in fiscal 2028.

In countries and regions other than China and Europe, for which our approach is as stated earlier, we will continue to seek business growth, particularly in countries and regions such as India, which offer significant potential but where our businesses are small, as well as in promising countries where we have yet to establish a presence.

My Mission as the Corporate Officer in Charge of Group International Business

Since its foundation, the Wacoal Group has pursued the vision of a "Global Wacoal." Today, we are engaged in businesses worldwide, selling products in more than 50 countries and regions and operating local subsidiaries in 22 countries and regions. Due to the current COVID-19 pandemic, however, wisdom and practices that were valid until recently are no longer viable. Consequently, reform has become a matter of now or never. Nonetheless, looking ahead to a post-COVID-19 society, expansion of the overseas business will be indispensable to the growth of the Wacoal Group.

Until now, Group companies have conducted business development in a vertical manner based on discrete brands and countries. To accelerate growth and achieve results going forward, however, concerted business development on a Groupwide basis is essential. We will be able to realize significant growth if three categories of companies can act as one and increase coordination with one another. These three categories are overseas subsidiaries under the management of the Global Division of Wacoal Corp., Peach John Co., Ltd. and other Group companies in Japan, and the overseas subsidiaries under the management of these domestic Group companies. Under the corporate officer system, in fiscal 2020 I was appointed as the corporate officer in charge of Group international business. The mission I have been given is to forge ahead with unified, Groupwide business development. Revised and clarified last year, our vision of a "Global Wacoal" is a set of five tasks that indicate how we should expand and develop overseas businesses (please see page 14). By establishing and faithfully following a road map for the accomplishment of these five tasks, we will take on the challenge of achieving discontinuous growth.

Through concerted initiatives, the Group will become a "Global Wacoal" that is highly trusted by existing customers as well as by a constantly growing number of new customers.

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Businesses in the United States (Wacoal America, Inc.)

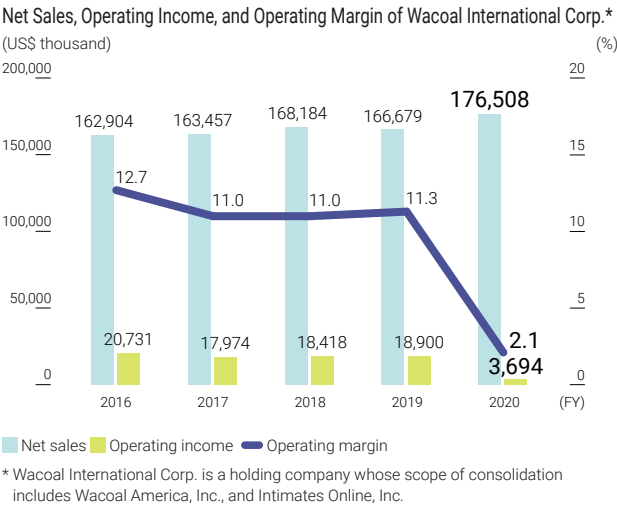
By aggressively advancing a “Digital First” strategy, we will accelerate growth of the e-commerce business, thereby contributing to the growth of the entire Group.

Mitch Kauffman
CEO
Wacoal America, Inc.



Fiscal 2020 Performance

Net sales	US\$168,685 thousand (−1.4% YoY)
Operating income	US\$14,830 thousand (−21.9% YoY)
Operating margin	8.8% (−2.3pt YoY)



- 1. What is the role of Wacoal America (WAI) in the Wacoal Group?**
Established 35 years ago, Wacoal America has grown to be the leading intimate apparel brand in better stores across North America. WAI’s success has been achieved through a dedication to quality, fit, service, and mutual trust. Moreover, WAI has greatly expanded and strengthened the Wacoal brand’s reputation worldwide.
WAI also contributes to other Group companies by excelling in key production processes and in online sales and marketing. Given online retail channels’ growth, this expertise has become even more important for the future. With sights set on increasing net sales in the North American market to US\$30.0 billion by fiscal 2028, WAI is advancing various initiatives based on priority strategies: grow e-commerce further, enhance product development capabilities, reform cost structures, and expand businesses in surrounding countries.
- 2. What were the company’s business results and issues in fiscal 2020?**
In fiscal 2020, U.S. consumer spending was strong overall but continued shifting away from such categories as apparel and toward experiential areas. Growth in online shopping also continued to accelerate. Consequently, the traffic and sales of our core department and specialty store distribution channels declined. The pandemic in March resulted in sudden store closures and order cancellations.
Despite the macro retail challenges, the *Wacoal* and *b.tempt’d* brands achieved solid retail sales gains primarily due to the successful introduction of new products. Retailers focused on inventory control and increasing turnover, leading to disappointing shipments overall. The strong growth of Wacoal Direct and the wholesale online business was not enough to offset declines in brick-and-mortar stores.
Expense savings did not offset the lost gross margin dollars from deficient sales, resulting in WAI only achieving 88% of budgeted operating profit. However, net income was 10% above budget.
- 3. In the current fiscal year, what are the challenges in relation to the COVID-19 pandemic?**
The COVID-19 pandemic in the Americas caused the closure of all WAI brick-and-mortar distribution points by late March 2020. Stores gradually

began reopening in mid-May. Some consumers shifted to online shopping but not enough to offset the decline in store sales. In the first quarter of fiscal 2021, our total retail sales trend was down 52% year on year.
Overall retail sales trends have recovered but remain down 37% year on year. First-quarter shipments decreased 50% year on year, reflecting retail trends and the financial challenges of some key customers. While stores reopened early in the second quarter, customer traffic was down significantly. The current expectation is for an uncertain, fluctuating retail environment in the current fiscal year. In the remaining three quarters, year-on-year decreases of 6% in revenue and 20% in brick-and-mortar revenue and a 20% increase in online revenue are expected.
Other significant challenges include the risk of closure of the Wacoal Dominican Republic factory due to the COVID-19 pandemic as well as excessive markdown costs resulting from order cancellations.
WAI’s multi-faceted strategy in 2020 entails cutting expenses significantly and accelerating the growth of e-commerce businesses.
Since April, it has been apparent that the COVID-19 pandemic is going to have a long-term impact on consumer spending. Over 15% of the department stores where WAI is distributed have closed or will close by 2022, and there is significant risk of additional store closings. Total e-commerce spending has increased, with the apparel e-commerce share doubling. Many new e-commerce consumers are expected to continue shopping online after the pandemic.
To address this new environment, WAI has created a “Digital First” strategy, which will continue aggressive growth of the Wacoal Direct and wholesale e-commerce businesses and focus on brand awareness, online experience, digital and virtual fittings, warehouse and distribution, and redeployment of our fit consultant team.
This strategy will enhance the Wacoal Direct experience, thereby attracting and retaining new customers in our highest-margin distribution channel. These initiatives will also benefit our wholesale online and store businesses by enhancing brand awareness and improving operational execution.
As a result, in terms of revenue growth we expect over 20% CAGR for Wacoal Direct and 8% CAGR for wholesale online over the next five or more years. This should offset an 8% CAGR decline expected in store businesses and allow WAI to continue to grow in 2021 and beyond.

Businesses in the United States (Intimates Online, Inc.)

We will leverage a strong customer base and balance marketing investment between customer acquisition and retention to heighten profitability and bolster our brand power even further.

Michelle Cordeiro Grant
CEO
Intimates Online, Inc.



Fiscal 2020 Performance

Net sales	US\$11,967 thousand
Operating loss	US\$(11,494) thousand
Operating margin	—



- 1.What is the role of *LIVELY* in the U.S. business, and how will the brand get on a growth trajectory in the medium to long term?**
In 2016, Michelle Cordeiro Grant launched *LIVELY* to create a new genre and point of view in the U.S. lingerie category. Our goal has always been to build a long-lasting, leading brand with strong equity through community, product excellence, experiences, and core values. Moreover, *LIVELY* is a brand and community that inspires women to live passionately, purposefully, and confidently.
Since our establishment, we have focused on digital excellence and acquisition marketing to build a strong, loyal community and customer base. While its core products are innerwear, *LIVELY* has expanded into additional categories. In addition, we have launched the “No Makeup Needed” podcast and fostered a thriving ambassador network across the U.S. Also, we have begun an omni-channel journey by launching a presence in retail and establishing a key wholesale partner, Nordstrom. Consequently, *LIVELY* is now poised to grow even more and make bigger and bolder strides toward the mission of inclusivity, community, physical retail, and experiences.
Having established a strong omni-channel strategy with a substantial customer and community base, we are ready for the next chapter of our growth. Our medium-term focus is on an optimal balance between acquisition to retention marketing, which will increase profitability and brand equity. Also, we are preparing for exponential e-commerce growth based on continued efficiencies, operational excellence through use of the Wacoal warehouse, superior customer service, and inventory management that meets customers’ needs.
While the physical environment is uncertain, in the long term the omni-channel approach is key. However, our near-term focus is on being a primarily digital entity supported by operational excellence. We will build a best-in-class customer experience by advancing a range of initiatives to tie together our digital and physical resources.
We will continue building the *LIVELY* brand through a long-term, three-pillar strategy comprising efficient growth in brand awareness, customers, and community; omni-channel connectivity; and product category expansion.

- 2. What were the company’s business results and issues in fiscal 2020?**
In fiscal 2020, overall growth was not as strong as expected. Nonetheless, net sales grew 44.3% year on year, to US\$19.4 million, and we acquired 295,000 more customers. This progress will allow us to continue building a strong customer base through a balanced approach toward customer acquisition and retention in fiscal 2021. Further, our ambassador community has expanded to more than 130,000 members.
We knew diversification of our marketing mix would be critical to success in fiscal 2020. From the second quarter onward, however, a greater-than-expected decline in Facebook efficiencies created a difficult digital marketing climate. To offset these inefficiencies, we leaned into building new channels; for example, our affiliate program grew from less than 2% to 14% of revenue, while email and text grew 13 percentage points year on year, to account for 20% of revenue. In addition, we increased our physical retail footprint to four stores, all of which are growing strongly. Meanwhile, wholesale flattened as we shifted our penetration at Nordstrom from brick-and-mortar stores to e-commerce to better align with growth opportunities. In March 2020, although we were able to pivot our digital experience quickly, we were unable to completely offset the rapid market declines accompanying the spread of COVID-19.
- 3. In the current fiscal year, what are the challenges in relation to the COVID-19 pandemic?**
In the current fiscal year, we have responded to the pandemic’s impact on the market through a major shift in strategic focus from retail and wholesale toward e-commerce. As a result, *LIVELY* has seen a rapid increase in revenue. In the new climate, digital marketing efficiencies have quickly improved; we have increased TV advertising; organic channels have become extremely effective; and we have leveraged the affiliate partners channel. Further, we have launched new digital experiences for customers. Additionally, we tested virtual styling and social content experiences for our ambassador community based on the theme of staying home.
Although the first half of fiscal 2021 has seen exponential growth, we are cautiously optimistic about full fiscal year performance given the approaching end of a government stimulus package and unemployment funding—which have supported customer sentiment—and uncertainty over the upcoming election.

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Businesses in Europe

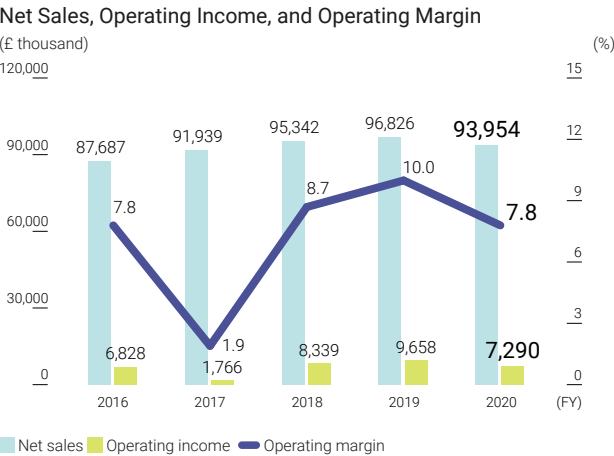
Wacoal Europe will expand its share of important markets by catering precisely to changes in purchasing behavior and by enhancing services at brick-and-mortar stores.

Geoff Embley
CEO
Wacoal Europe Ltd.



Fiscal 2020 Performance

Net sales	£93,954 thousand (−3.0% YoY)
Operating income	£7,290 thousand (−24.6% YoY)
Operating margin	7.8% (−2.2pt YoY)



1. What is the role of Wacoal Europe in the Wacoal Group, and what is the company's medium- to long-term vision?
In 1950, Wacoal's founder Koichi Tsukamoto, set out a 50-year plan to expand business overseas and become a true global leader in the industry. Subsequently, Wacoal expanded into Asia, North America, and Europe.
The European business was enhanced through an acquisition in 2012 that provided a substantive base on the continent, but it was not until its recognition as 2018 Designer of the Year at the Salon de Lingerie in Paris that Wacoal was confirmed as a truly global brand.
The Wacoal brand in the Wacoal Europe business is only part of the story, however. Wacoal Europe's business is unique as it has a portfolio of six brands, covering lingerie and swimwear, that are rolled out not just in the European markets but in over 30 countries across the world.
As retail has reopened, we have restarted some of the projects that will help us in the future, and our development program has been adapted to suit the changing conditions. We are adapting our strategies to the changing marketplace, recognizing that digital has accelerated and that consumers are more cautious. However, we recognize that brick-and-mortar stores are still very important. We design and manufacture an engineered garment, and the best service is still provided by fit consultants. The more we enhance that process for the consumer, the more successful we will be. We also recognize that we have more to do on corporate sustainability and in many other areas. Just as the founder set out 10-year plans, we are pursuing a 10-year plan to continue growing market share through organic growth, new ventures, and acquisition.

2. What were the company's business results and issues in fiscal 2020?
It is important to understand results for fiscal 2020 in the context of the market. In most markets, the challenges have been similar worldwide. Corporate sustainability is emerging as a key issue, but the challenge of a changing retail market has been more problematic. Brick-and-mortar retailers are under increasing pressure due to the growth of e-commerce, which has led to reduced footfall along with cost pressures due to high rental values on property. Inevitably there have been some casualties, some short term, while others have been terminal.

I am delighted to report that we were successful in navigating our way to another year of solid growth until the COVID-19 pandemic hit world markets. We expanded our department store base, with new business added at El Corte Inglés, the largest European department store group in Europe. We expanded into Dillard's in the southern region of the United States and acquired new listings with David Jones in Australia. We were still growing in the independent sector as the brands gained recognition, and we were well positioned in the e-commerce market. We launched our own e-commerce branded websites in the fiscal year, which has proved to be fortuitous as they have exceeded expectations in 2020 due to the impact of lockdowns.
Over the past three years, we have worked hard on forecasting, merchandising, and inventory management, and as a result, customer service levels are at record-high levels. We have invested in the physical and technological infrastructure, the development of the management group, and the strengthening of the organization's culture. We worked in collaboration with the Human Science Research Center in Japan on projects that we believe will give us competitive advantage in the future and develop our program for social sustainability. We have also worked with our sister companies to leverage synergies within our businesses.

3. In the current fiscal year, what are the challenges in relation to the COVID-19 pandemic?
COVID-19 has changed our priorities, but we have continued to follow the founder's principles of mutual trust and taken decisive action. We have adapted to ways of working that still ensure employee safety, thereby keeping the trust of our employees while servicing our customers. Service levels have been maintained, and we have delivered a development program for each season. During the lockdown period, we took 100% ownership of the Sri Lanka manufacturing operation, thereby securing manufacturing for the future and strategic capacity for other Wacoal companies.

Businesses in China

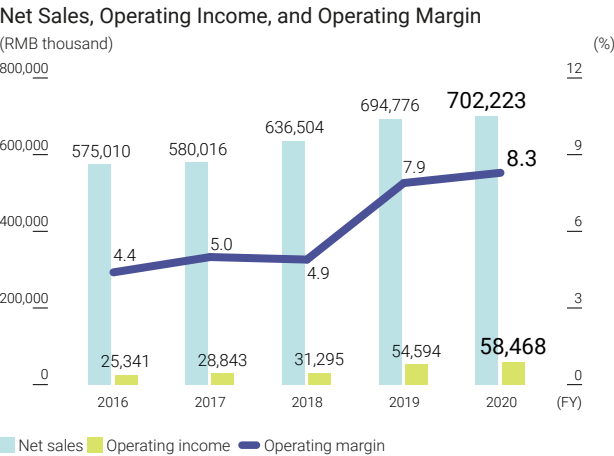
We will steadily advance business strategies and enhance profitability to fulfill our role as a growth driver.

Koji Tsujimoto
President and Representative Director
Wacoal China Co., Ltd.



Fiscal 2020 Performance

Net sales	RMB702,223 thousand (+1.1% YoY)
Operating income	RMB58,468 thousand (+7.1% YoY)
Operating margin	8.3% (+0.4pt YoY)



Roles and Fiscal 2020 Achievements
of Businesses in China

Aiming to play its part in a "Global Wacoal" alongside the Group's businesses in North America and Europe, Wacoal China Co., Ltd., is pursuing its priority strategies by increasing the company's share of department store sales and strengthening the e-commerce business. In fiscal 2020, the year ended March 31, 2020, thanks to the successful strengthening of collaboration with e-commerce mall operators, the revenues of the e-commerce business significantly surpassed targets and the previous fiscal year's revenues to account for 20% of net sales. Meanwhile, we decisively withdrew from underperforming brick-and-mortar stores. Further, Japan's *amphi* brand product lineup, which we rolled out to acquire young customers, met with a favorable reception from customers and made a strong start. Also, with a view to sustained growth, we reorganized and strengthened our business foundations by consolidating logistics bases.

Measures Going Forward in Anticipation of
Post-COVID-19 Conditions

Going forward, Wacoal China will increase its absolute customer numbers by building a relationship with each customer that is deeper, broader, and longer. In addition to the aforementioned *amphi* brand offerings, from the autumn and winter of 2020 the e-commerce business will begin marketing products that target the middle-class customer group. Further, in collaboration with Peach John Co., Ltd., we will begin in-house live commerce.* Meanwhile, we will further consolidate brick-and-mortar stores and strengthen the profit and loss management of stores. Also, Wacoal China will maximize store value by expanding and enhancing model stores, renewing the membership program, and improving store services. Other initiatives will include increasing the efficiency of product rollouts and conducting rigorous inventory control to boost earning power. In addition, plans call for strengthening personnel development through the operation of a new human resources system.
Although the COVID-19 pandemic has greatly affected us, we will overcome the present difficulties by returning to basic management strategies, strengthening internal collaboration within the operation division, and proactively leveraging China's advanced digital infrastructure.

* A combination of livestreaming and e-commerce, which has become popular in Asia, particularly in China