

Dialogue

Aiming to benefit society and enhance enterprise value through the creation of a new innerwear culture



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The worldwide COVID-19 pandemic is significantly affecting the Wacoal Group’s business management. How should this turbulent era be viewed? What are the prospects for innerwear culture? What should an outside director’s role be in corporate decision-making?

Realizing Effective Governance in Emergencies

Yamazaki: In recent years, as the reform of Japanese companies’ governance has progressed, the balance between the advisory and supervisory roles of outside directors has become a focus of attention. Such attention has become even more pronounced with the series of issues arising from the COVID-19 pandemic. First, this is because the true value of outside directors is more evident when companies are dealing with emergencies than in ordinary times. Second, Japanese companies have come to an important fork in the road, a point

stressed by our forum’s April 10 Emergency Engagement Agenda. With many companies making great efforts to get reforms underway only to then abandon them in pursuit of near-term business results, I believe that now more than ever companies need the objective, broad perspectives that outside directors are uniquely qualified to provide. Today I would like to hear the views of Mr. Iwai, who has been an outside director of Wacoal Holdings since 2018, in regard to a variety of topics.

Let’s begin with the COVID-19 issue. When exactly did the Board of Directors grasp how the situation was unfolding, and what type of discussions did the Board hold?

Iwai: In addition to Wacoal Holdings’ Board of Directors, venues for discussing the Group’s management policies include meetings of the Board of Directors of Wacoal Corp. and the Group Management Meeting. Further, the minutes of meetings that outside directors do not attend are emailed to them. According to the minutes, in the second half of February the Group Management Meeting received a situation report from the Corporate Ethics and Risk Management Committee and discussed such countermeasures as transitioning to telecommuting. Discussions including outside directors began at the March meeting of the Company’s Board of Directors. This meeting heard reports on the effect of COVID-19’s spread on business results, the presence or absence of infected persons and those in close contact with infected persons, and the Group’s countermeasures. I was particularly impressed by measures to have Kyushu Wacoal Manufacturing Corp. produce masks for distribution to all Group employees worldwide. Outside directors praised such measures and pointed out the need to prevent infection in day-to-day activities by ensuring awareness is raised among employees. Executives replied to the effect that they were issuing information through the intranet and health insurance associations and actively urging caution through the posting of signs in stores and other measures.

Also, in the second half of April the Group Management Meeting held an in-depth discussion on management issues going forward. It seems that the specific medium- to long-term matters discussed included reducing business expenses and investments in the current fiscal year; issues related to changes in and responses to customer purchasing patterns post-COVID-19; things that the Company should discontinue, temporarily suspend, revise immediately, or continue unchanged; and the strategic focus of businesses, structural reforms, and organizations in the aftermath of COVID-19. However, regrettably the online Board of Directors’ meeting on the following day did not receive a report on these discussions. Of course, details of the discussions were included in the meeting’s minutes, which were provided later.

Yamazaki: Was this point about a report not being received made to the executives?

Iwai: The point I just mentioned and other relevant points were clearly communicated to the executives. The atmosphere at meetings of the Board of Directors lends itself to stating opinions, and outside directors, as needed, share their opinions frankly with the senior management team during prior briefings on agenda items and chats after meetings. When it comes to online meetings, however, inevitably there are fewer of these kinds of incidental opportunities for communication.

Yamazaki: What is your overall evaluation of the measures Wacoal has taken in response to the COVID-19 crisis?

Iwai: The senior management team’s response to the crisis showed a determination to protect employees and prevent them from becoming infected, and employees also seemed to share an appropriate sense of crisis. On the other hand, not

holding discussions on medium- to long-term management issues until the second half of April was perhaps a little late.

Yamazaki: While a sense of crisis with respect to the situation at hand is important, precisely such situations also call for taking a broader view of things.

Creating a New Innerwear Culture

Yamazaki: Looking back over history, on numerous occasions humanity has been exposed to the plague and other infectious diseases. At present, COVID-19 is having a similar effect as these diseases. Do you think that society will have to live “with COVID-19” for some time to come?

Iwai: Yes, I believe so. Our adversary is a virus, and viruses can repeatedly undergo sudden mutations. Even if a vaccine is developed, there is no guarantee that it will be a panacea for all issues resulting from COVID-19. We may not even get to a “post-COVID-19” situation. That is to say, we may be forced to coexist with the virus over a long period.

The impact of such a scenario would go far beyond that of the global recession triggered by the bankruptcy of Lehman Brothers and would turn conventional business wisdom on its head. Indeed, looking at the activities of companies, telecommuting and online meetings have already become commonplace. Moreover, some companies have begun reducing their office floor space.

Yamazaki: Business-to-consumer companies have suddenly been affected by changes in work styles and lifestyles, haven’t they?

Iwai: For example, in the cosmetics industry, which I previously worked in, these changes are affecting business models based on such sales techniques as consultative sales because they conspicuously meet the three conditions that facilitate the transmission of infectious diseases, namely closed spaces, crowds, and close contact. Meanwhile, digital transformation is accelerating, with the burgeoning demand for e-commerce being the most obvious sign of this trend.

Yamazaki: What effect do you think that this new situation will have on Wacoal’s strengths?

Iwai: I think the disappearance of demand for women’s innerwear is absolutely out of the question. For instance, *Night Up Bra*, designed to support the position of the bust so that even when wearers are lying on their side they can sleep comfortably, has proven extremely popular. This example and others suggest that the desire of women to maintain their physiques is perhaps universal.

Yamazaki: I agree that the market for innerwear is unlikely to vanish. However, changes in innerwear culture are possible. In the past 100 years, Japan’s apparel culture has been completely transformed. Previously, Japan did not have the

custom of wearing Western innerwear. After World War II, however, Wacoal was founded, and the country's innerwear culture changed significantly. Taking this history into consideration, a new innerwear culture might come into being.

Iwai: I think you are right. As the leader of Japan's innerwear culture, Wacoal must be in the vanguard of new changes, and it is a company with the ability to do just that.

Since I was engaged in the cosmetics industry, I have been interested in the huge volume of measurement data that the Human Science Research Center has accumulated. I believe data on approximately 45,000 women as well as data on the changes in the physiques of the same women over time are unique assets. This knowledge underpins such achievements as Wacoal's original *3D smart & try* 3D body scanner technology.

Yamazaki: Taking just one measurement seems as if it would require extensive knowledge of physique measurement. The combination of 3D body scanners with AI-enabled customer services is an approach that merits attention as it meets the current era's need for contactless services.

Iwai: In tandem with the introduction of these technologies to directly managed stores, Wacoal is exploring the possibility of selling the technologies externally. Regarding the latter activities, at meetings of the Board of Directors I have stressed the importance of rigorously analyzing the business formats of partners and proceeding strategically. As the first phase of such initiatives, Wacoal recently formed an alliance with the major department store Isetan Mitsukoshi Holdings Ltd. For a variety of reasons, I believe Isetan Mitsukoshi to be an ideal partner.



Accelerating and Decelerating as Needed



Yamazaki: Looking back over the two years since you became an outside director, how do you feel that Wacoal's governance has changed?

Iwai: Reform of Wacoal's governance is underway at this moment. The Audit & Supervisory Board's annual report commended the Board of Directors for having much livelier discussions. The fact that we are now given documents and minutes from the main in-house meetings has been a major step forward. Further, I chair the Executive Compensation Advisory Committee and the Executive Nomination Advisory Committee. With respect to the latter, I feel that more proactive provision of information is required. In deepening discussion on the short-listing and nomination of candidates for positions in the senior management team, we need to be apprised of the candidates' abilities, professional skills, and business experience.

On the other hand, the Independent Outside Officers Meeting, which was established in 2015, is functioning well. My impression is that the Company responds promptly to the findings of this committee. Also, I frequently communicate with investor relations managers, who receive valuable pointers from investors. This allows me to submit various recommendations to executives with the aim of ensuring that they are aware of issues investors raise.

Yamazaki: That is very encouraging to hear. Admittedly, outside directors are not in a position to issue orders; however, they can submit recommendations on major strategies and ideas. I believe that it is important to facilitate this kind of communication at meetings of the Board of Directors and other meetings.



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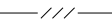
Iwai: I believe that the role of an outside director is to be ready and willing to “step on the gas” or “the brake” as appropriate in each situation. I will work unstintingly to assist the reforms that Wacoal is advancing in response to the current unprecedented situation. Further, if I ever feel that we are running out of control, I will step on the brake without hesitation.

Yamazaki: When deciding to step on the gas, what kind of things do you focus on?

Iwai: First, I make a point of stating opinions with reference to data and based on my own research. Also, rather than accepting executives' proposals unquestioningly, I enumerate my reasons for concern with the aim of having them eliminated one by one. This has been my philosophy since I was engaged in corporate management. To arrive at the correct decision, we need to listen not just to one side's opinion but also to the opposing argument.

Before meetings of the Board of Directors, I carefully read and absorb the relevant documents. If there is anything that I do not understand, I ask questions. If something does not seem right, I state my doubts frankly. For example, when the acquisition of the *LIVELY* brand in the United States was under consideration, we received a prior briefing on the details of the proposal directly from members of the U.S. company's senior management team. At this time, I posed a variety of questions and expressed several concerns. Ultimately, as I had received convincing replies and explanations, I stepped on the gas at the subsequent Board of Directors' meeting and agreed with the proposal.

Building a More Robust Corporate Structure



Yamazaki: Have you shared the various issues that you discussed today with President Yasuhara?

Iwai: President Yasuhara and I are of similar ages and have a great deal of mutual understanding. Of course, I tell him what needs to be said directly, and I feel that all of his words and

actions demonstrate that he seriously considers the issues raised. This is his third year as president, and my guess is that he has a strong desire to deliver solid results during the term of the current medium-term management plan.

Yamazaki: Lastly, what type of measures are needed if Wacoal is to grow into a company with a stronger corporate structure?

Iwai: The top priority is to survive the shakeout that is underway at present. The current medium-term management plan's first basic policy calls on the Group to achieve strong growth in Japan and overseas. Although the premise of this policy has been undermined, Wacoal's response must be to accelerate efforts focused on the plan's second basic policy, which is to *review and reform the structures of the Group's businesses without making any special exceptions*. At the same time, the Group must *heighten enterprise value by enhancing both economic and social value* in accordance with the third basic policy.

Enhancing “social value” means the pursuit of integrated value creation that takes into account environmental, social, and governance (ESG) factors. This is exactly the type of value creation that the vision of a “Global Wacoal” refers to by describing a future in which *we always provide pioneering products to the world and continue to lead the field of innerwear culture*. Wacoal should maintain this commitment to social value and use it to identify which aspects of businesses require reform.

Wacoal's operations span all value creation processes, including consumer surveys and product planning through to development, manufacturing, marketing, and sales. This vertically integrated value chain opens the way for the creation of customer-oriented businesses based on completely new concepts. The first step toward reform is to ensure that all Group employees are fully aware of such unique strengths and the medium- to long-term business targets for fiscal 2028. I will continue encouraging executives to discuss themes of a more forward-looking nature so that Wacoal remains essential to society.