

By providing unique value that reflects changes in society's priorities and issues, the Wacoal Group will sustain growth.



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Q Over the past year, how has the COVID-19 pandemic changed the environment and how have these changes affected the Wacoal Group?

A Around the world, lifestyles, behavior, and consumption have changed dramatically, and management structure issues have become apparent. In addition to accelerating structural reforms, we are making multifaceted preparations in anticipation of a post-COVID-19 society.

A Year That Revealed a Major Issue in Our Profit Structure

Yasuhara: Since the COVID-19 pandemic began, we have been working on the assumption that rapid containment of the crisis will be challenging. However, a 19.0% year-on-year decrease in consolidated net sales, to ¥152.2 billion, and an operating loss of ¥1.1 billion are not results that merit praise. Before the pandemic, we were aware that a profit structure in which an approximately 10.0% decrease in sales eliminates profit was an issue. In response to the dramatic changes stemming from the pandemic, we accelerated measures focused on self-transformation. Nonetheless, we recorded the first operating loss since our establishment, and I view this result very seriously. In fiscal 2022, the year ending March 31, 2022, and the final fiscal year of the current medium-term management plan, we will continue giving first priority to structural reforms aimed at correcting the high level of cost in our profit structure.

Significant Changes in Lifestyles and Consumption Patterns Worldwide

Ito: From the perspective of consumers and ordinary citizens around the world, lifestyles, behavior, and consumption patterns have changed significantly. At the root of these changes is the fact that the pandemic has made many people more concerned about their immediate surroundings as well as about society and the environment generally. To take masks as an example, until recently people wore them to protect themselves from infection, but now they also wear them to protect others from infection. I believe that this change in thinking, coupled with the rapid progress of digitization, has brought about major shifts in how we live and act.

Pandemic-driven acceleration of the clock and significant changes in customer values and distribution channels are hampering the effective functioning of our organizational structure and unique value chain that comprises R&D, product planning, and sales through consultations with beauty advisors—which until now we have viewed as assets and advantages. As the biggest issue that the Wacoal Group faces, this mismatch has led to a decline in sales and the recognition of an operating loss. Concluding that we had to change our organizational structure to address the issue, we embarked on a bold reorganization of Wacoal Corp. in April 2021.

Adaptation to Trends after Vaccination Rollout Programs

Yasuhara: The difference from a year ago, immediately after the outbreak of the pandemic, is that business performance is beginning to recover in some countries and regions as people are vaccinated in increasing numbers. Consequently, the outlook is gradually becoming more predictable. While there are differences among countries and regions, on the whole, vaccination programs will progress throughout fiscal 2022. As a result, we are likely to see the easing of behavioral restrictions and sudden spikes in consumption may occur in certain countries and regions. However, the future trends after such phenomena have passed are the key consideration. Accordingly, we must carefully analyze the outlook for a range of factors, including the percentage of sales accounted for by e-commerce, which has risen in the past year; whether consumption focuses on goods or on services, such as travel; and the balance between the consumption of goods and services. Whatever the outcomes are, as the choices of consumers are expected to diversify further, being prepared to adapt to a range of possible scenarios is extremely important for us. By accurately responding to future changes in the environment, we will achieve new growth.



How are the structural reforms progressing, and what results have they produced?



Certain benefits are emerging from cost structure reforms, which are focused on cost reduction, the improvement of store profitability, and the optimization of personnel expenses. We will continue revising and reforming our operations to improve profitability, which will enable dramatic advances during the period of the next medium-term management plan.

Reforms to Enable Advances under the Next Plan

Yasuhara: We have been pushing forward with structural reforms with the aim of achieving dramatic advances during the period of the next medium-term management plan, which will begin in April 2022. Although progress and results differ from country to country, the e-commerce business, which we are strengthening as part of our growth strategy, has seen significant benefits, particularly in relation to Peach John and the United States. We have been able to accelerate efforts aimed at correcting the high level of cost in our profit structure thanks to the strong sense of crisis shared by all employees in the face of rapid changes in the external environment as well as the implementation of existing measures and expenditure plan reforms in all of our businesses. We have also achieved some positive results in improving store profitability and optimizing personnel expenses, which were identified as tasks.

Digital Transformation: The Key to Structural Reform

Ito: At present, we are accelerating these reforms even further and moving forward one year earlier than expected with measures we had envisioned implementing during the next medium-term management plan. We had a sense of crisis that, if we missed the current opportunity, officers and employees might revert to their previous mindset. This was a major factor in our decision to undertake the large-scale reorganization of Wacoal Corp.

In achieving structural reform, the use of digital technologies is indispensable. First of all, we are now at a stage where we can create digital customer records—based on data managed by in-house e-commerce and directly managed stores as well as data held by department stores—and share a variety of customer information in-house. Further, we are making steady progress in improving the customer experience through the use of digital technologies. For example, we are providing stress-free sales environments by integrating online and off-line operations and introducing 3D body scanners. Through the promotion of digital transformation, we will improve operational efficiency while building deeper, broader, and longer relationships with individual customers.

Reform of Employee Awareness and Behavior

Yasuhara: Going forward, linking personnel evaluations to numerical targets for employees, including employees of subsidiaries and overseas significantly, will be important. If targets change, awareness and behavior change. Until now, we have set sales as a key performance indicator (KPI) for each division. For an employee responsible for certain department stores, sales at these department stores were an important indicator. Given the increasing complexity of customers' consumption behavior, however, it will become important to establish personnel evaluation systems that not only take into account the stores and sales channels for which employees have responsibility but also reciprocal customer referrals between other stores and sales channels, such as online stores and specialty stores.

We are already in the process of introducing new evaluation systems. For example, we have introduced an evaluation system for beauty advisors whereby they earn recognition if their introduction of customers to online stores or other stores leads to a product purchase, even if the product is not carried by the store where the beauty advisor works. As a result, beauty advisors have become more proactive in referring customers to other stores and sales channels, which has strengthened coordination among sales channels and enhanced customer satisfaction.

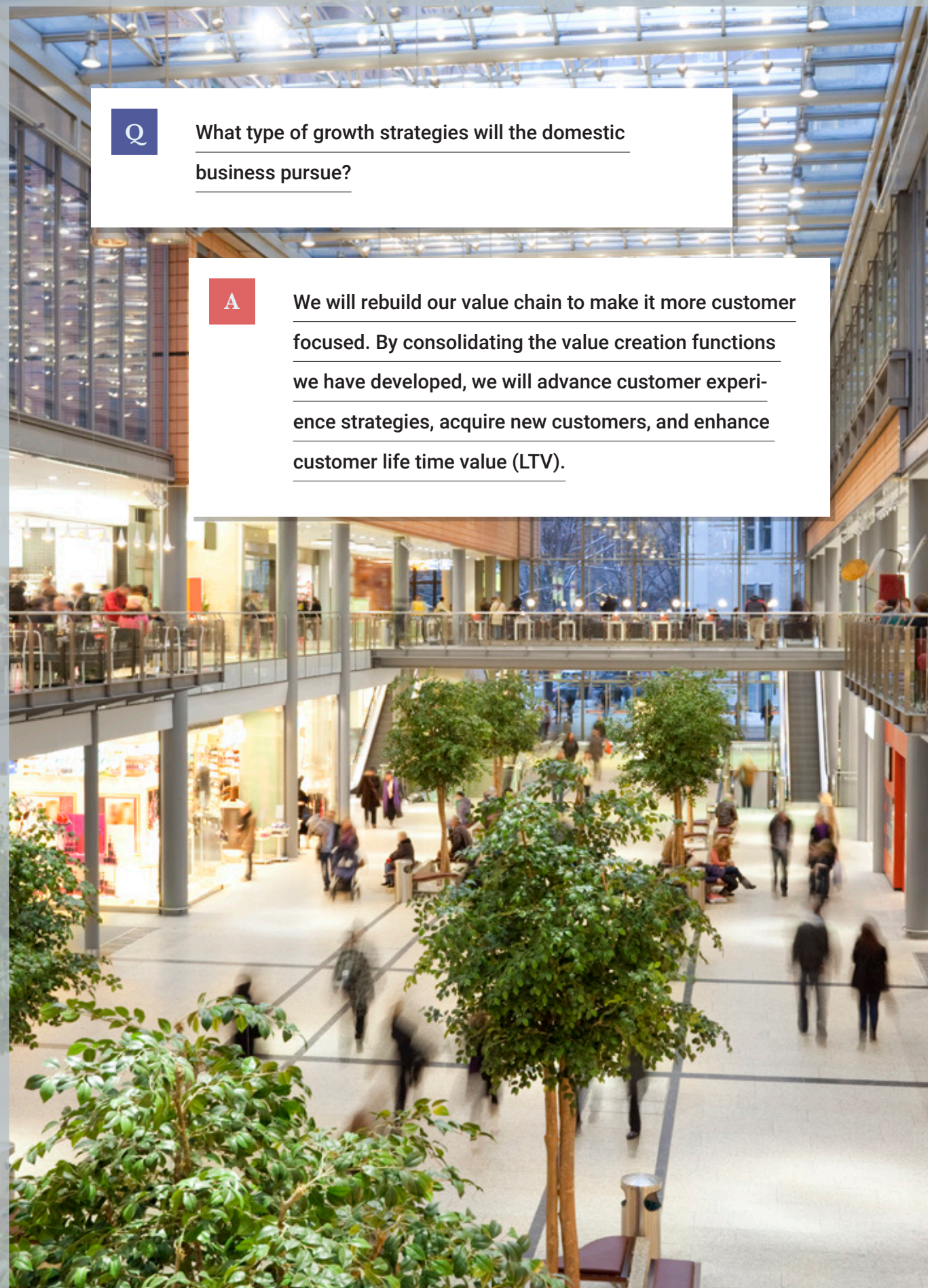




What type of growth strategies will the domestic business pursue?



We will rebuild our value chain to make it more customer focused. By consolidating the value creation functions we have developed, we will advance customer experience strategies, acquire new customers, and enhance customer life time value (LTV).



Reorganization of Wacoal Corp.

Ito:

As I mentioned earlier, Wacoal Corp. reformed its organization on April 1, 2021. The purpose of the reorganization was twofold. The first goal was to better meet the needs of customers, and the second was to streamline the organization and optimize the allocation of management resources by reforming structurally overlapping functions and management resources within the company. Until recently, Wacoal Corp. conducted operations through discrete organizations for respective sales channels, and each of these organizations had its own value chain that included product planning and sales teams. Our main purpose was to disassemble these organizations and reassemble product planning, sales, and marketing functions in an appropriately customer-focused manner. Also, we reorganized the brand groups into three groups. Instead of the sales channel-based approach previously used, we will adopt the approach of a marketer who focuses on what kind of value is being provided to which type of customer. In this way, we will evolve our manufacturing functions. Moreover, the reorganization has revealed overlapping functions as well as shortcomings. Wacoal Corp. will bring together the value-creating functions scattered throughout its value chains to provide even more value to customers and achieve structural reform.

An LTV Strategy That Builds Deeper, Broader, and Longer Relationships with Customers

Ito:

Our customer experience strategy is a distinctive growth strategy that increases LTV by utilizing online stores and brick-and-mortar stores in combination to acquire new customers and heighten the loyalty of existing customers.

The nature and role of brick-and-mortar stores will change significantly. We aim to achieve e-commerce sales of ¥20.0 billion by fiscal 2025. If we reach this target, in-house e-commerce sales will account for 20.0% of our net sales. Add 5.0% to this for the percentage of net sales contributed by other companies' e-commerce, and brick-and-mortar stores' share of net sales is likely to decrease to 75.0%. As the percentage of customers using e-commerce is expected to continue rising beyond fiscal 2026, the role of brick-and-mortar stores will be to increase the level of engagement between customers and Wacoal.

We think of our customer group, which comprises new customers and loyal customers, as being a "customer pyramid." The key to expanding the entire customer pyramid is to attract new customers and membership program participants by providing the products and services that meet the needs of the times as well as reflect changes in the points of contact themselves. With this in mind, we will leverage the *3D smart & try* customer service system, which utilizes 3D body scanners and AI. Measures aimed at utilizing *3D smart & try* to strengthen customers' points of contact with Wacoal through quality products and favorable customer experiences are being led by the Innovation Strategy Office, established in April 2021.

Another option for creating new points of contact with customers is through collaboration with other companies. Already, we are partnering with Isetan Mitsukoshi Holdings Ltd. to roll out *Match Palette powered by 3D smart & try*, a service for matching physique measurements with well-fitting women's apparel. Similarly, at LaLaport CLOSET, a store opened by Mitsui Fudosan Co., Ltd., in March 2021, we are offering the *3D CLOSET powered by 3D smart & try* service, which uses physique measurements to suggest well-fitting outerwear. We will continue collaborating with other companies to actively develop new points of contact. In this way, the development of a range of measures focused on attracting new customers and enhancing LTV will form the core of our growth strategy.





What is your growth strategy for the overseas business?



We will focus on strengthening the e-commerce business and advancing our customer experience strategy. By continuing to invest in the bolstering of in-house e-commerce and taking advantage of digital technologies to provide new customer experience value, we will increase brand recognition and achieve further growth.



Strengthening of E-Commerce Worldwide

Yasuhara: With respect to our overseas business, while there are businesses in countries such as the United States that have achieved significant growth through the utilization of digital technologies, there are also countries and regions where businesses are struggling to make headway with our existing business model. In China, which has been a growth driver, competition with emerging brands in the e-commerce market is intensifying, and I feel that we need to formulate a new growth strategy for the country. As for Europe, in addition to establishing a digital technology strategy for renewed growth in mainstay markets, we must open up new markets.

One common theme globally is that strengthening e-commerce is the key to growth. Accordingly, we will advance e-commerce strategies tailored to the circumstances of each country and invest in growth. Although the situation is different in each country, the development of in-house websites, rather than reliance on other companies' e-commerce platforms, will be a major factor in realizing long-term growth.

For this reason, we have built an in-house e-commerce platform that can be used by all of our subsidiaries in Asia, other than those based in China and Japan. The effect of this e-commerce platform has been promising. In Malaysia, where the e-commerce platform first became available, our local subsidiary made a solid start, receiving 1.5 times more orders than initially targeted. Due to the small scale of their operations, our subsidiaries in Asia have been unable to establish e-commerce businesses. Through the Wacoal Group's coordinated initiatives, however, these subsidiaries will realize growth in Asia's e-commerce market, which is expected to expand rapidly.

A Customer Experience Strategy for Brand Enhancement and Further Growth

Yasuhara: At the same time as strengthening e-commerce, we will implement a customer experience strategy to heighten customer experience value. Wacoal America, Inc. has developed an app that allows customers to measure their physiques with smartphones and is using physique measurement as a way of creating points of contact with customers. In Europe, we are introducing *3D smart & try*. When recruiting monitors in the region prior to the full-scale introduction of the service, we received more applications than expected. This response has alerted us to the possibility that services taken for granted in Japan, such as size measurement and the recommendation of products based on trial fittings, could meet with a favorable reception as novel services overseas, particularly in the United States and Europe. The enhancement of customer experience through such new services promises to help us heighten brand value and achieve further growth.

Also, Intimates Online, Inc., which the Wacoal Group made a wholly owned subsidiary in July 2019, is steadily drawing in more customers and realizing high growth, particularly among the digital native generation. Moreover, the subsidiary's growth is stimulating other operating companies, and we believe the realization of even larger synergies among Group companies will be possible going forward.





In which direction will the Wacoal Group proceed over the medium to long term?



In the medium to long term, growth of the overseas business is essential and will be an important factor for the Group's growth. In Japan, with a focus on the health field, we will build deeper, broader, and longer relationships with customers.



Overseas Business Growth: A Critical Task

Yasuhara: Approximately 30 years from now, in 2050, Japan is projected to have a population of around 100 million. With a declining birth rate and an aging population, a structural decline in the population group aged between 15 and 65 is inevitable, and domestic consumption will decrease overall. In this environment, there is no way for the Group to continue growing domestically other than through the rigorous development of deeper, broader, and longer relationships with its customers. To this end, the creation and fostering of new businesses is essential.

On the other hand, from a global perspective, increasing the scale of our overseas business is of great significance. Our target is to grow net sales from their current level of ¥250.0 billion to ¥300.0 billion by fiscal 2028. Although the balance between domestic and overseas sales has been slightly altered by the COVID-19 pandemic, the Group generates domestic net sales of approximately ¥150.0 billion and overseas net sales of roughly ¥100.0 billion (including nonconsolidated sales). Given that a 50:50 ratio is envisioned between domestic and overseas sales, the Group cannot grow without the growth of the overseas business. Therefore, the degree to which we can grow in such countries and regions as the United States, Europe, and China will be decisive over the medium to long term.

The Health Field: Our Next Growth Mainstay

Ito: The Group currently provides value in the areas of beauty, comfort, and health. How we renew each area of value to meet consumers' changing needs will significantly affect our next stage of growth. Even in the new normal era after containment of the pandemic, consumer behavior is likely to evolve further. Expected to continue aspiring to healthy, safe lifestyles, consumers will probably favor high-value-added products and good services that offer genuine value. To realize renewed growth in the new normal era, it will be essential to detect shifts in consumer outlook and take appropriate measures that reflect consumer priorities.

In all overseas regions, I believe we must provide value in fields beyond innerwear. Among these additional fields, the health field is set to become particularly important. Here, I am using the word "health" in a broad sense. In-house, we use the term "wellness" when referring to health-related fields as a whole. For example, wellness for us encompasses everything from the development of new products in collaboration with medical institutions through to the provision of services that help consumers live with greater vitality. Through initiatives to help women look and feel more beautiful, our organization has built up a range of capabilities and assets that are highly compatible with the health field. Taking into consideration this advantage, the collaborations that the Innovation Strategy Office is advancing with other companies, and the type of external inquiries we are receiving, health is one of the fields where we can create new growth.

We are currently analyzing what types of businesses in the wellness field to create and how to monetize them. We will build new business models based on consumer needs and changes among consumers, consideration of how best to establish a foothold in the wellness field, and whether we can adapt and combine our management resources to develop growth drivers.





Q

How will the Wacoal Group sustain growth amid the rapidly changing needs of consumers and society?

A

Through engagement with customers, employees, and other stakeholders, we will clarify our purpose. We will sustain growth by establishing new business models and creating value based on this purpose.

The Values of Tomorrow

Yasuhara: Environmental issues are becoming more serious, and consumers' awareness of sustainability is changing significantly. Until now, mass production and mass consumption have supported economic growth, but we are on the cusp of an era in which consumers value high-quality products that last for a long time. In fact, Wacoal's existing policy is to provide quality products with long life spans. Our products must pass more than 100 wash tests before being put into production. For us, this emphasis on quality and durability has always come naturally. Going forward, however, I feel that we need to communicate this differentiating factor more energetically to the outside world.

The Direct Connection between Social Contributions and Business Growth

Ito: In the future, I believe that consumers will become more interested not only in products themselves but also in the missions of the companies that provide them and companies' relationships with suppliers. In other words, helping consumers understand the philosophy and the story behind the creation of a product will become more important. Recently, I had the opportunity to interact with Generation Z university students at a workshop that was also attended by young employees. Talking with members of this generation really brought home to me the need to communicate the backgrounds of products. From now on, I feel that "business = enhancing customer and employee satisfaction and contributing to society" will be the norm and that the realization of this equation will become a direct driver of growth. With this in mind, the first thing we need to do is to update our management philosophy to suit the coming era and develop our businesses under the guidance of new goals. We have already launched a project to further discussion on such topics. As part of this process, we are also conducting in-house engagement activities themed on the purpose of the Company and its businesses. In the future, we must increase awareness among employees of the link between the growth of the Company and its contributions to society and the environment. Furthermore, we must create conditions that encourage employees to view these contributions as something that concerns them personally. Similarly, in our efforts to open up new areas and further develop existing areas in the health field, it is important that we clarify the purpose of business ventures by sharing with employees the objectives of businesses and the reasons Wacoal is involved in them. Accordingly, the social purpose of our businesses will be a major theme of our next medium-term management plan.

Increased Customer LTV as a Driver of Sustained Growth

Yasuhara: The concept of LTV that we have adopted means a focus on motivating each customer to use our products and services throughout the customer's life. The concept is also extremely significant from the perspective of sustainability and ESG. As we build deeper, broader, and longer relationships with our customers, we expect to gain new insights into the value they really want. We will use these insights to create new business models and further increase customer satisfaction. By focusing on the fields of beauty, comfort, and health while providing value that addresses the issues both of customers and society, the Wacoal Group will demonstrate its unique purpose and achieve sustained growth.