

A Message from the Director in Charge of Finance

With unwavering determination,  
we will reform our profit structure and  
achieve a recovery in business results.

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Opening Comments

I regret to report that in fiscal 2021, the year ended March 31, 2021, we recorded the first operating loss since our establishment. As the director in charge of finance, I do not take this result lightly. Further, in fiscal 2021 we lowered dividends for the second consecutive fiscal year, with dividends per share of ¥40.00 representing a ¥20.00 year-on-year decline. In this regard, I am acutely aware of the responsibility I bear for failing to meet the expectations of shareholders.

We view fiscal 2022, the year ending March 31, 2022, as a period that will put us on track to return to our pre-COVID-19 performance level in fiscal 2019. Accordingly, with unwavering determination, we will reform our profit structure and achieve a recovery in business results.

Fiscal 2021 Business Environment and Performance

As mentioned above, in fiscal 2021 Wacoal's business results were extremely disappointing. In response to the COVID-19 pandemic, telecommuting became widespread and consumers avoided crowded areas, causing a drop in customer visits to large downtown commercial facilities. This steep decline significantly affected the performance of the Wacoal Group, which sells a high percentage of its products through brick-and-mortar stores. Further, the pandemic brought to light various issues in the Group, from the high level of cost in its profit structure through to issues in the raw materials supply chain.

On the other hand, there were positives amid this difficult environment. As contactless shopping became predominant, e-commerce grew significantly in respective countries. The e-commerce business of Peach John Co., Ltd. achieved robust growth thanks to product planning and marketing that matched customer needs. Intimates Online, Inc., which was acquired in 2019, together with the e-commerce of our businesses in the United States also posted strong growth.

In addition to the aforementioned growth of e-commerce, the Group made progress in cutting costs through rigorous cost control and benefited from government support, such as employment adjustment subsidies received in Japan and overseas. These factors lowered operating loss from the initially expected level of ¥5.0 billion to ¥1.1 billion. Thus, despite social and economic turmoil, we were able to keep operating loss below projections.

Changes in the Business Environment and the Wacoal Group's Responses

Our most significant achievement in fiscal 2021 was growing the e-commerce business. That said, the growth was largely attributable to the tailwind provided by the COVID-19 pandemic. For this reason, we must remain vigilant and continue steady efforts to grow the business. As the entire apparel industry shifts toward e-commerce-centered sales formats,

implementing measures to deepen relationships with existing customers while making efforts to acquire new loyal customers will be essential for the realization of stable growth. With this in mind, we will use as templates and deploy Groupwide the marketing and customer management methods and efficiency-enhancing advertising strategies of Peach John and Intimates Online, which have already proven so effective.

Another major change in the environment is the rapidly growing awareness of sustainability in society as a whole. Significant changes in interests and values related to social and environmental issues, especially among the younger generation, give me a strong sense of crisis with respect to the fact that if we only pursue superiority in design, quality, and price, in both domestic and overseas markets, customers will not choose our products in the coming era. Therefore, going forward we must focus on the "stories" behind our brands and products, such as products that have long life spans, manufacturing that minimizes waste, and supply chains with guaranteed traceability. The empathy created among customers by communicating these stories will be our biggest differentiator, which in turn will help boost purchases per customer, grow market share, and increase net sales. Accordingly, we have recently launched an in-house project focused on sustainability. In addition to redefining our purpose, the mission we should fulfill over the medium to long term, and our target profile, the project's members are discussing the numerical targets that we should set with a view to addressing material issues and thereby creating social and economic value. We will evolve as a sustainable corporate group by continuing to provide the comfort and quality that we have emphasized since our founding while strengthening initiatives to fulfill social responsibilities.

Benefits of Profit Structure Reform

Through reform that corrects the high level of cost in our profit structure, we aim to achieve ¥10.0 billion in cost reductions by fiscal 2023. The first step in pursuing this target is to revamp underperforming businesses. With this in mind, we will

Consolidated Performance Overview

	FY2021 results	FY2021 target [versus target]	FY2021 revised target* [versus target]
Net Sales	152.2	158.0 [-5.8]	156.0 [-3.8]
Operating Income (Loss) [Operating Margin]	(1.1) [(0.7%)]	(5.0) [+3.9]	(1.0) [-0.1]
Net Income (Loss) Attributable to Wacoal Holdings Corp.	7.0	(3.7) [+10.7]	(0.5) [+7.5]
ROE	3.3%	—	—

\* Announced in October 2020

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prepare revitalization plans for businesses and operating companies. If revitalization is problematic, we will establish and adhere to time limits for withdrawal. We believe that not having a negative legacy when we launch our new medium-term management plan in April 2022 is important.

The second step in cost reduction efforts will entail Wacoal Corp. lowering its total personnel expenses through the management of personnel plans. In fiscal 2021, the operating company achieved an approximately ¥1.0 billion reduction in total personnel expenses by curbing the hiring of sales personnel and part-time personnel. Necessitated by a deterioration in the profitability of store sales, measures to revise personnel mixes and transfer beauty advisors to other stores or sales channels also produced benefits in terms of cost. In fiscal 2022, we expect that the significantly heightened efficiency resulting from the reassignment of personnel will reduce total personnel expenses by roughly ¥2.0 billion compared with those of fiscal 2020. In April 2021, Wacoal Corp. implemented a reorganization and began reforming its sales system. Specifically, instead of clustering the sales system around sales channels, we have transitioned to a system organized around operational functions, each of which has control over all sales channels. This reorganization has enabled increased flexibility in the assignment of personnel. In the current fiscal year, we will identify any issues in the new sales system and consider the best management approaches for further increasing its effectiveness. At the same time, we will maximize the value provided by and increase the efficiency of work associated with brands, which face increasingly complex customer issues. Also, functional overlaps existed in marketing investment because it was conducted separately for each business and sales channel. Going forward, however, we will heighten the efficiency of marketing investment by only investing as necessary in businesses with growth potential.

Our third cost-curbing step will reduce the number of our brands. We have already completed preparations to reduce

the number of brands by about 30%, and we will launch a new brand strategy beginning from the 2021 autumn/winter season. Along with the reduction in brands, we will streamline product varieties and stock keeping units (SKUs). A feature of brassieres is that they have an extremely large number of SKUs compared with other apparel products because brassiere SKUs comprise a combination of the underside and cup sizes of the bust and color varieties. Therefore, reducing product varieties and SKUs lowers the workloads associated with product planning, inventory control, and sales administration and helps reduce the production costs arising from product varieties and SKUs. Moreover, improved inventory efficiency has the added benefit of mitigating product disposal and raw material wastage. However, such reductions must not cause any disadvantage or inconvenience to customers. In this respect, the role of e-commerce is extremely important, and we will increase coordination between e-commerce and brick-and-mortar stores to avoid inconveniencing customers.

Capital Policy

Our basic capital policy is to give priority to investments for future growth while seeking to enhance shareholder returns. Unfortunately, the ROE and profits that we initially envisioned did not materialize. Nonetheless, we do not plan to adjust numerical targets as we are determined to realize ROE and profits comparable with their former levels. Our ROE of 3.3 in fiscal 2021 was too low. Accordingly, we will continue advancing measures to raise ROE to a level that at least exceeds the cost of capital.

In efforts to improve ROE, our primary focus is on growing profits, the numerator of ROE. At the same time, however, we aim to improve the asset efficiency of the denominator by disposing of at least ¥20.0 billion in strategic shareholdings during the period of the current medium-term management plan. In fiscal 2021, we disposed of ¥2.2 billion in strategic shareholdings. In relation to the ¥20.0 billion target, we have

disposed of a cumulative total of ¥17.0 billion in strategic shareholdings to date, and we will continue actively disposing of such shareholdings.

In addition, with the aforementioned curbing of inventory volume through reductions in the number of SKUs being another important way of improving asset efficiency, initiatives to lower inventory volume are significant in relation to balance sheet improvement. Therefore, we will rigorously manage inventories and accounts receivable as they are the main balance sheet items that respective business divisions are able to control.

Further, with a view to the introduction of directly managed stores, we are in the process of changing over the format of our transactions with department stores to *shoka* agreements, whereby the manufacturer retains ownership of merchandise until its retail sale. Consequently, we will need to manage not only internal inventories but also retail inventories as part of our balance sheet. As inventory-related indicators are key performance indicators (KPIs) for the improvement of ROE, in the new medium-term management plan we must set numerical targets for inventories and then manage them accordingly.

Cash Flows and Investment for Growth

Cash flows have not seen any substantial negative impact. In the summer of 2020, we borrowed ¥40.0 billion to increase cash on hand, which enabled us to take appropriate measures in response to the pandemic. As a result, although it was approximately ¥2.0 billion on a consolidated basis, net cash used in investing activities remained within an acceptable range in fiscal 2021.

As for fiscal 2022, we plan to invest roughly ¥10.0 billion. First of all, we have earmarked approximately ¥3.0 billion for IT investment aimed at advancing customer experience strategies in Japan and digital technology strategies in the United States. At Wacoal Corp., IT investment has been continuous in recent years and has risen to account for around 5.0% of business expenses compared with a level of about 3.0% until several years ago. Depreciation is expected to remain at a high level for the next few years, but we will continue to invest for growth.

With respect to human resources, Wacoal Corp. added 20 personnel to its IT Department through personnel redeployments in the spring of 2021. Furthermore, we have assigned about 30.0% of new employees to the IT Department or to departments related to digital transformation and the internet. Our aim is to have these new employees garner experience in digital technology fields and growth fields. This type of experience will greatly benefit our efforts to integrate and coordinate customer experience strategies with existing businesses. In such ways, we will actively implement personnel development measures as part of our growth investment initiatives.

In addition, to strengthen the growth of our e-commerce business and improve the efficiency of shipping operations, in 2020 we began building a new logistics center that will expand the Moriyama Distribution Center in Shiga Prefecture. The new



logistics center is scheduled to start up operations in the autumn of 2022. Construction work for the expansion is expected to require an investment of roughly ¥3.0 billion, which is likely to be the largest cash outflow in the current fiscal year.

The Financial Impact of ESG-Focused Management

At the present juncture, providing specific figures on the financial impact of a management approach that is focused on environmental, social, and governance (ESG) factors is difficult. Over the long term, however, ESG-focused management will reduce risk and lower the cost of capital. As I mentioned earlier, for us, the core of ESG initiatives lies in conveying the stories behind individual brands and our overall corporate brand.

The Wacoal Group's business management philosophy has always incorporated consideration for sustainability and human rights, and these aspects of the philosophy are put into practice in daily business activities. Telling concrete stories about our unique initiatives with regard to the environment, human rights, and socially responsible procurement and developing and highlighting products that symbolize our efforts to address social issues will certainly have a positive financial impact. One of my important roles is to ensure that the positive financial impact of ESG-focused management is realized in ways that lower risk, mitigate share price volatility, and reduce the cost of capital.

With the revision of Japan's Corporate Governance Code and the restructuring of the Tokyo Stock Exchange's market segmentation, companies will be required to meet increasingly stringent sustainability standards. I intend to expedite the establishment of capabilities and systems that allow us to respond adequately to such requirements. For example, in fiscal 2021, with the cooperation of outside directors and through the use of a videoconferencing format, we held more meetings of the Executive Nomination and Executive Compensation advisory committees. By continuing to establish and improve our corporate governance capabilities and systems as needed, we will meet the expectations of society.

As we transform, I would like to ask shareholders, investors, and all of our other stakeholders for their continued support.

FY2021 Progress in Relation to Financial Policies

