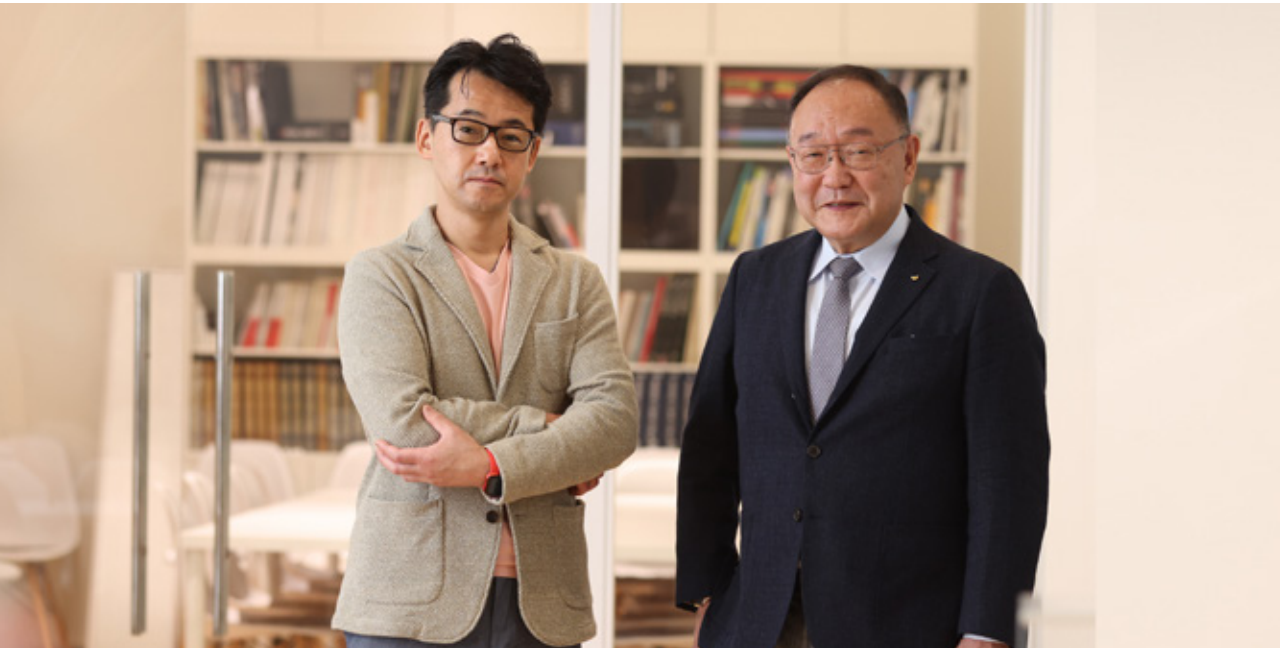


To properly deliver Wacoal’s unique value to consumers, a brand strategy that leverages the Company’s advanced manufacturing capabilities is essential



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Changes in customers’ values and purchasing behavior accompanying the COVID-19 pandemic and the spread of digital technologies are significantly impacting the business management of the Wacoal Group. Aiming to realize renewed growth and a highly profitable management structure, the Group drastically reformed the structure of its domestic businesses in April 2021. Why is the Group moving in a new direction through the consolidation of manufacturing and marketing functions and the reform of sales systems? What needs to be done at this juncture for the Group to achieve renewed growth and increase corporate value? What roles should outside directors play during a phase of corporate transformation?

Mr. Hisashi Yatsuo of Rheos Capital Works Inc. and Mr. Tsunehiko Iwai, an outside director of Wacoal Holdings Corp., held a frank discussion on the aforementioned questions.

Note: For the purpose of inclusion in this report, the following is a summarized version of a discussion on investor relations held in June 2021.

Wacoal’s Manufacturing Strengths

Yatsuo: I am a senior fund manager at Rheos Capital Works Inc., an asset management company in Japan. The company’s total assets under management recently exceeded ¥1.0 trillion, and more than 30% of these assets are overseas stocks. Our basic stance toward asset management is to look at medium- to long-term growth, rather than quarterly results, for example.

One reason we have adopted this stance is that the majority

of our customers are individual investors in their 30s or 40s, an age when some begin focusing on asset formation. Further, we receive more than half of our total assets under management through installment investment. In other words, as a certain amount of money enters the fund every month, there tends to be a net inflow of money over the medium to long term, and we can therefore readily take long positions.

Also, we place importance on environmental, social, and governance (ESG) initiatives both in our corporate activities and in the selection of investees. As the head of the internal

committee that oversees such initiatives, I have an obligation to report directly to the Board of Directors. Today, I am looking forward to learning about the steps that Wacoal Holdings Corp. is taking to incorporate ESG initiatives and thereby create integrated value.

Mr. Iwai, as representative director and executive vice president of Shiseido Co., Ltd., you led the company’s management reforms before becoming an outside director of Wacoal Holdings in 2018. Did you have any contact with the Wacoal Group before then?

Iwai: No, none at all. I remember being surprised when asked if I would become an outside director. However, Shiseido and Wacoal have a lot in common. Both companies are focused on helping people to become beautiful, and both are vertically integrated manufacturers. Since I have a background in research, I have always agreed with Wacoal’s emphasis on data. In particular, the Human Science Research Center’s physique data on about 45,000 people and the data from the regular measurement of more than 1,000 people, which tracks changes in the physiques of the same group of women as they age, are unique assets. I believe I was asked to become an outside director because the senior management team wanted me to use my experience and knowledge to take a hard look at Wacoal’s management and check whether these strengths were being fully leveraged.

Yatsuo: Having actually looked inside Wacoal, what is your evaluation of the Company’s current situation? Also, in what ways do you intend to make use of your experience?

Iwai: First of all, as I have experienced both successes and failures, I do not think that my past experience will necessarily form the basis of arguments that are persuasive to Wacoal’s senior management team. One thing I can say, however, is that you cannot just look at things from a single standpoint. Examining matters from different angles is important. For proper risk management, you need to assume the worst. Experience has taught me this way of thinking, and I always take an all-around view of matters when making statements at meetings of the Board of Directors and other bodies.

Overall, I think the Company deserves praise for its measures in response to the COVID-19 pandemic. Premised on preventing the spread of infection, the Company made an all-out effort to counter the decline in store sales.

Grounds for optimism going forward include the growth of the e-commerce business. Wacoal is also progressing with digital transformation. The avatar-enabled *Ava.Counseling Parle* system as well as measurement technology based on 3D body scanners are likely to become powerful marketing tools given the demand for contactless interactions. Thinking about the accumulation of data that enables such initiatives and the talented personnel who can use it as the basis for innovation gives me a renewed sense of Wacoal’s potential.

Reorganization and the Strengthening of Brand Marketing

Yatsuo: On the other hand, such strengths are not appreciated by capital markets, and the price book-value ratio has been below 1.0 for a long time. This seems strange given Wacoal’s brand profile and competitiveness. What are your thoughts in this regard?

Iwai: In my view, Wacoal’s brand marketing is still not good enough.

In 2018, when I assumed this position, my initial impression was that Wacoal exuded the type of refinement and elegance that reminded me of the atmosphere at Shiseido. I sensed an absolute confidence in the manufacturing capabilities of the Company and the unrivaled quality of its products, and there was an assumption that consumers were sure to understand the excellence of Wacoal’s products. However, products do not sell just because they are good.

Wacoal is a corporate brand and a product brand that is familiar to everyone in Japan. On the other hand, if you look beyond the *Wacoal* brand there are no product brands that can stand on their own. Relying on the Wacoal brand as an umbrella, product brands only pursue fine degrees of differentiation. This kind of random approach is not an effective way to use brand assets.

Peach John, however, is completely different.

Yatsuo: The products Peach John makes are different. Even looking at Peach John’s promotional measures immediately gives you the sense that the personnel involved probably have completely different sensibilities from those of personnel in other Wacoal businesses.

Iwai: Peach John has a business model that outsources the manufacture of its products. Also, the operating company’s development process is completely different from that of Wacoal, which is vertically integrated. Peach John independently advances its own brand marketing activities and has created its own unique worldview. *Wing* and other brands should also have this type of distinctiveness.

The April 2021 reorganization of Wacoal Corp. was designed to increase the overall sophistication of business operations so that new brand strategies can be introduced. Specifically, the Wholesale Business and Retail Operation divisions have been reorganized into the Sales Division and three brand groups, thereby consolidating sales and manufacturing functions, which were separate. At the same time, the person who was the general manager of the Global Division until the previous fiscal year has been appointed head of the brand groups, while the person who was the head of the Retail Operation Division until the previous fiscal year has been appointed general manager of the Sales Division. The

intention is to further promote sales and manufacturing that are driven by markets and customer data. Another major feature of the reorganization is the establishment of the Marketing Management Department between the Sales Division and the brand groups.

Yatsuo: So, a department has been established that will serve as a hub for coordinating opinions from the sales and manufacturing areas?

Iwai: That is right. Those engaged in manufacturing have their own particular logic, while those involved in sales have their priorities. The situation that must be avoided is when the two parties coexist in a half-hearted way, because this creates a culture of blaming others in which each thinks it is the other's fault that things are not working out. The design of the new organization is very well thought out as it clearly separates both functions while putting an organization between them that can speak to either side.

The newly established Sales Division does not separate such sales channels as directly managed stores, department stores, general merchandise stores, and specialty stores, but pursues integrated marketing in five regions. In addition, the formation of brand groups that are a clear departure from the previous approach, which was based on the *Wacoal* and *Wing* brands, shows a willingness to seek more strategic differentiation for the product brands while staying connected with Wacoal as a corporate brand. In my opinion, to evolve Wacoal's manufacturing and reduce costs, we should introduce "chassis," by which I mean we should standardize essential functions. I feel that if the new system works correctly, it will strengthen manufacturing.



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Toward Further Empowerment of Women

Yatsuo: Recently, effective governance has become an eternal theme in capital markets. Looking at various cases in Japan and overseas, I do not think it is simply a matter of increasing the number of outside directors. Members of the Board of Directors need to have a sense of ownership.

In Wacoal's case, however, the Company mainly deals with products for women, and 90% of its employees are women, but there are no female internal directors. How do you view this state of affairs?

Iwai: I think the Company still has not promoted enough women. In a company with this many female employees, only having a quarter of managerial positions occupied by women is far too low a level. Given the percentage of women in the general population, women should account for at least half of managers. I have made statements to this effect at meetings of the Board of Directors and other bodies. According to the corporate officer responsible for human resources, the percentage of women among those who pass the managerial promotion examination has been increasing, and the development of female candidates for the senior management positions is also progressing.

However, there is also a saying that "the position creates the person." I think that one option is to be a little forceful about raising the percentage of women and boldly promote them to the positions of corporate officer and director.

Yatsuo: Why are there no senior executives emerging from the bloc of female employees that represents 90% of the workforce?

Iwai: I think the situation has actually changed a lot. In fact, I know the woman who developed the 3D body scanner measurement service I mentioned earlier. One approach would be



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to rapidly promote such talented women. Incidentally, in 2021 she became the youngest person of either gender to be promoted to the position of manager in Wacoal's history. I think this is a symbolic example of how things are set to change a great deal from now on.

Yatsuo: I hope the Company can bring such personnel to the fore and attract media coverage.

Awareness Reform Resulting from Structural Reform

Yatsuo: I have seen many different companies in Japan and overseas. In general, the larger the company, the longer it takes to transform. That said, as a rule of thumb, after a company sets off in a new direction it takes about two years before the benefits begin to emerge. I think that the reorganization of Wacoal Corp. has pointed the operating company in an extremely favorable direction, so I am interested in what the operating company will be like in two years.

Iwai: I believe in reforming structures before reforming awareness. At Wacoal Corp., early this spring the general manager of the Sales Division traveled around Japan to hold discussions with sales personnel and other personnel. These discussions were possible precisely because under the new organization the Sales Division has authority over integrated marketing in each region. Real changes in awareness only occur when each employee has understood the meaning of such structural reforms. People tend to be reluctant to change.

Yatsuo: I really think that is true. The most important thing going forward is how to increase employee engagement.

Iwai: My impression is that President Yasuhara and Vice President Ito, who is the president of Wacoal Corp., are more

committed than ever. Just the other day, a regular quarterly performance meeting was held in which the managers of respective regions and departments spent a whole day reporting on business results. Partly due to the prolonged COVID-19 pandemic, business results were below targets. President Yasuhara singled out several underperforming departments and issued strict instructions that require the departments to prepare specific countermeasures by the end of the first half of the current fiscal year.

In accelerating transformation, the formulation of the next medium-term management plan will be important. I really hope that the plan sets management goals that link medium-term goals and long-term goals more clearly.

Yatsuo: In other words, rather than a plan that includes statements such as "with an eye on fiscal 2028," you would like to see a plan that sets out goals for specific fiscal years?

Iwai: Yes, that is what I mean. Once such goals have been established, the Company should then backcast from them and decide what is to be done at each juncture.

In any case, I think Wacoal has become more interesting since April. As a result of the reorganization, the attitude not only of the senior management team's two leaders, President Yasuhara and Vice President Ito, but also of other directors and corporate officers has changed.

Yatsuo: I also have the impression that President Yasuhara's demeanor has changed considerably over the past few years. He now speaks to us frankly about Wacoal's problems, and I think he is busy steadily pushing forward with internal reforms.

Let me end by thanking you for the insights your comments have provided me with today.