

Management’s Discussion and Analysis

Wacoal Holdings Corp. and Subsidiaries

Financial information contained in this section is based on the consolidated financial statements included in this integrated report, prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP).

The Wacoal Group consists of one holding company (the Company), 58 consolidated subsidiaries, and seven equity-method affiliates. The Wacoal Group manufactures, wholesales, and—for certain products—retails women's foundation garments and lingerie, nightwear, children's underwear, outerwear and sportswear, hosiery, and other textile products. Other operations include restaurant businesses, cultural and service-related operations, and the construction of interiors for commercial premises.

OVERVIEW

We are a leading designer, manufacturer, and marketer in Japan of women's intimate apparel, with the largest share of the Japanese market for foundation garments and lingerie. Foundation garments (primarily brassieres and girdles) and lingerie (primarily slips, bra-slips, and women's briefs) accounted for 80.7% of our consolidated net sales for fiscal 2021. We also design, manufacture, and sell nightwear, children's

underwear, outerwear, sportswear, hosiery and other apparel and textile goods, and provide several other services.

OVERVIEW OF STATUS OF BUSINESS PERFORMANCE, ETC.
Status of Financial Position and Operation Results Status of Financial Position

Our total assets as of March 31, 2021 were ¥322,761 million, an increase of ¥45,073 million from the end of the previous fiscal year, mainly due to an increase in cash and cash equivalents in effort to ensure liquidity on hand.

Our liabilities were ¥104,145 million, an increase of ¥35,905 million from the end of the previous fiscal year, mainly due to increases in short-term bank loans for reasons similar to those discussed with respect to assets.

Shareholders' equity was ¥215,612 million, an increase of ¥10,241 million from the end of the previous fiscal year, mainly due to recognition of net income and changes in pension liability adjustments.

As a result of the above, our total shareholders' equity ratio as of March 31, 2021 was 66.8%, a decrease of 7.2% from the end of the previous fiscal year.

Results of Operation

(Millions of Yen)				
	2020	2021	YoY Change	
			Amount	%
Net sales	186,760	152,204	(34,556)	(18.5%)
Cost of sales	84,959	67,798	(17,161)	(20.2%)
Sales profit	101,801	84,406	(17,395)	(17.1%)
Selling, general and administrative expenses	93,927	81,700	(12,227)	(13.0%)
Impairment charges on property, plant and equipment	769	1,136	+367	+47.7%
A: Impairment charges on goodwill and other intangible assets	473	2,685	+2,212	+467.7%
Operating (loss) income	6,632	(1,115)	(7,747)	—
Other income/expenses	1,487	1,517	+30	+2.0%
B: Valuation gain/(loss) on marketable securities and investments - net	(3,760)	10,390	+14,150	—
Income before income taxes and equity in net income of affiliated companies	4,359	10,792	+6,433	+147.6%
Net income attributable to Wacoal Holdings Corp.	3,472	7,025	+3,553	+102.3%

Summary of Business Results

During the current fiscal year (from April 1, 2020 to March 31, 2021), the global spread of the new coronavirus ("COVID-19") has significantly impacted people's livelihoods and economic activities. Our business in Japan has continued to remain difficult due to a decrease in the number of customers visiting stores and a decline in consumer confidence resulting from the impact of temporary closings of retail stores and stay-at-home measures implemented during a state of emergency. In addition, our business in the overseas markets has also continued to remain difficult due to a number of lockdown measures mainly in the major cities in Europe and North America due to the prolonged impact of COVID-19.

Under such circumstances, we moved forward with our initiatives to create a management structure that leads to high profitability while conducting business activities that prioritize the safety and well-being of our customers, employees and partner companies and promoted our unique CX strategies to build a deeper, broader and longer relationship with each customer (the "CX Strategy", our digital strategies under which we have promoted the installation of 3D body scanning and AI (artificial intelligence)-based customer service system, and merger between online and offline activities, has been renamed to "CX Strategies" to promote a deeper relationship with each customer).

Our consolidated sales for the current fiscal year were ¥152,204 million, a decrease of 18.5% as compared to such consolidated sales for the

previous fiscal year. Despite growth in e-commerce sales in response to higher demand from consumers staying home, revenue significantly decreased due to the impact of temporary closings or shortened business hours of retail stores due to stay home measures, as well as a decrease in the number of customers visiting stores in the metropolitan areas.

We recorded a consolidated operating loss of ¥1,115 million (consolidated operating income of ¥6,632 million for the previous fiscal year). Our efforts to reduce costs at our operating companies, as well as our use of an employment adjustment subsidy and other government assistance in various countries were not enough to offset the impairment charges recorded on goodwill related to Wacoal Europe and fixed assets at other group companies due to the impact of COVID-19.

Wacoal Europe has continued to show stable growth since our acquisition in 2012 by developing high value-added products and implementing marketing activities that are tailored to the characteristics of each country where we do business or operate distribution channels. However, in light of the impact of COVID-19 in the United Kingdom and Europe and the customs clearance expenses incurred in connection with Brexit, we reassessed the fair value of goodwill based on our outlook of our business, and recorded the impairment charges of ¥2,673 million. As a result, the residual value of goodwill with respect to Wacoal Europe was ¥9,398 million (61.7 million pound) based on the exchange rate as of the end of the current fiscal year.

Consolidated income before income taxes and equity in net income of affiliated companies was ¥10,792 million, an increase of 147.6% as compared to such consolidated income for the previous fiscal year. This significant increase was due to the recognition of a valuation gain on marketable securities and investments (net) of ¥10,390 million.

As a result of the above, net income attributable to Wacoal Holdings Corp. and the ratio of net income attributable to Wacoal Holdings Corp. to shareholders' equity for the current fiscal year were ¥7,025 million (an increase of 102.3% from such net income for the previous fiscal year) and 3.3%, respectively.

The exchange rates used for the current fiscal year (previous fiscal year) were: ¥106.06 (¥108.74) to the U.S. dollar; ¥138.68 (¥139.24) to the Sterling pound; and ¥15.48 (¥15.78) to the Chinese yuan. (Under the U.S. accounting standards that we use, we adopt the accounting policy that an employment adjustment subsidy is deducted from cost of sales and selling, general and administrative expenses. Equity securities held by the

(Millions of Yen)						
	2020		2021		YoY Change	
	Amount	% to Sales	Amount	% to Sales	Amount	%
Total Net Sales	186,760	100.0%	152,204	100.0%	(34,556)	(18.5%)
Wacoal Business (Domestic)	106,112	56.8%	86,133	56.6%	(19,979)	(18.8%)
Wacoal Business (Overseas)	49,808	26.7%	41,355	27.2%	(8,453)	(17.0%)
Peach John Business	11,224	6.0%	12,200	8.0%	+976	+8.7%
Other	19,616	10.5%	12,516	8.2%	(7,100)	(36.2%)
Operating Income (Loss)	6,632	3.6%	(1,115)	—	(7,747)	—
Wacoal Business (Domestic)	6,083	5.7%	627	0.7%	(5,456)	(89.7%)
Wacoal Business (Overseas)	1,493	3.0%	(2,603)	—	(4,096)	—
Peach John Business	(351)	—	1,591	13.0%	+1,942	—
Other	(593)	—	(730)	—	(137)	—

Wacoal Business (Domestic)

Sales attributable to our "Wacoal Business (Domestic)" segment were ¥86,133 million (a decrease of 18.8% from such sales for the previous fiscal year) and operating income was ¥627 million (a decrease of 89.7% from such operating income for the previous fiscal year). Despite a significant decrease in profit due to the impact of decreased revenue, we recorded an operating income as a result of our efforts to reduce costs and our use of an employment adjustment subsidy and other government assistance.

Wacoal Corp.:

Sales from Wacoal Corp. decreased by 19.5% as compared to such sales for the previous fiscal year as a result of weak sales from physical stores over the year due to the impact of COVID-19, while our e-commerce website maintained high growth. Sales for the first half of the current fiscal year (from April to September) decreased by 30.6% as compared to such sales for the corresponding period of the previous fiscal year due to the absence of increased demand before the consumption tax increase during the previous fiscal year, in addition to the impact of temporary closings of physical stores and stay-at-home measures implemented during a state of emergency. Although sales recovered during the current consolidated third quarter, sales for the second half of the current fiscal year (from October to March) also decreased by 5.5% as compared to the corresponding period of the previous fiscal year due to consumers staying home during another state of emergency declared in the current consolidated fourth quarter.

While sales from general merchandise stores in the suburbs were strong, sales from physical stores located in the center of the metropolitan areas including outlet malls or other large-scale commercial facilities

Wacoal Holdings Corp. and consolidated subsidiaries are measured at fair value, and any change from the beginning of the period are recognized as valuation loss/gain on marketable securities and investments – net under other income/expenses.)

The following is a summary of operations by operating segment. Since the current consolidated cumulative first quarter, information on Ai Co., Ltd., which had previously been included in our "Wacoal Business (Domestic)" segment, and "Peach John Business" segment, has been included in our "Other" segment following review of certain management classification of performance within our group. In addition, starting from the current consolidated cumulative second quarter, we have changed our "Peach John Business" to be presented as a separate reporting segment, which had been included in our "Other" segment, because it satisfied the relevant quantitative criteria. The segment information for the previous consolidated fiscal year has been prepared based on the segments reported for the current consolidated fiscal year.

were stagnant due to a decrease in the number of customers visiting our retail stores reflectin efforts to promote remote work, as well as changes in consumer attitudes and behavior that led to less travel and fewer crowds.

Sales from our strategically strengthened e-commerce website significantly increased since the previous fiscal year (an increase of 55.2% as compared to such sales for the previous fiscal year) as a result of additional acquisition of new customers making purchases from home, online-to-offline marketing initiatives such as redirecting our retail store-registered members to our e-commerce website, as well as the positive impact of expanded sales from existing customers whose purchase rate increased due to our marketing utilizing automation involving distribution of content tailored to each customers. Our virtual one-on-one consultation by our store personnel also significantly contributed to the acquisition of new customers in a new life style.

In efforts to improving CX (customer experience), we promoted the installation of our 3D body scanning and AI (artificial intelligence)-based customer service system and are providing such service at sixteen shops as of March 31, 2021 (addition of ten shops since the end of the previous fiscal year). We are piloting an avatar counseling system, which we are developing to introduce an online customer service by our store personnel during the current fiscal year, and are addressing issues toward commercialization.

Our efforts to reduce costs were not enough to offset the impact of the decreased revenue and as a result, we recorded an operating loss of ¥2,022 million (operating income of ¥3,140 million for the previous fiscal year). An employment adjustment subsidy of ¥1,998 million is not included and reflected in such operating loss, because it is recognized as non-operating income (which has been reclassified as operating loss under the consolidated business results and segment information of Wacoal Business (Domestic) based on the U.S. accounting standards).

Wacoal Business (Overseas)

Sales attributable to our "Wacoal Business (Overseas)" segment on a Japanese yen basis were ¥41,355 million (a decrease of 17.0% from such sales for the previous fiscal year) due to temporary closing of physical stores and stay-at-home efforts resulting from the spread of COVID-19, as well as the impact of the appreciation of the Japanese yen (¥715 million). Sales of our Peach John brand products sold in China, which were previously recorded under this "Wacoal Business (Overseas)" segment, are now recorded under our "Peach John Business" segment starting with the current fiscal year, and the business result for the previous fiscal year has been revised retroactively (the effect following such change (and one of the factors decreasing sales) is approximately ¥507 million for the current fiscal year (approximately ¥744 million for the previous fiscal year)).

We recorded an operating loss of ¥2,603 million (operating income of ¥1,493 million for the previous fiscal year). This operating loss was due to our continued strategic marketing investments to achieve rapid growth of Intimates Online Inc. ("Intimates Online"), which we acquired during the previous fiscal year, as well as the recognition of impairment charges on goodwill with respect to Wacoal Europe, in addition to the impact of decreased revenue, despite our efforts to reduce costs and by using government assistance provided by governments across the world.

Wacoal International Corp. (U.S.):

Sales from Wacoal International Corp. (U.S.) on a local currency basis decreased by 5.7% (a decrease of 8.0% on a Japanese yen basis) as compared to such sales for the previous fiscal year. Although there was a positive impact of the inclusion of sales from Intimates Online on our sales for the first half of the current fiscal year, revenue decreased by 15.4% as compared to such revenue for the corresponding period of the previous fiscal year due to the weak sales from Wacoal America Inc., which distributes "Wacoal" and "b.tempt'd" brand products at physical stores (department stores), resulting from the impact of COVID-19. On the other hand, revenue for the second half of the current fiscal year increased by 5.4% as compared to such revenue for the corresponding period of the previous fiscal year as a result of strong sales from Intimates Online, which maintained a high purchase rate and average spending per customer, as well as high growth in sales achieved from our e-commerce website and third-party e-commerce websites, which offset declines in sales from physical stores. During the current consolidated fourth quarter, Intimates Online commenced transactions with Target Corporation, a major retailer in the United States, and is distributing LIVELY brand products through e-commerce channels and physical stores.

We recorded an operating loss of \$8.6 million on a local currency basis (¥914 million on a Japanese yen basis) (operating income of \$3.7 million (¥401 million on a Japanese yen basis) for the previous fiscal year) due to our continued strategic growth investments in our LIVELY brand distributed by Intimates Online, as well as the impact of the decreased revenue, despite our efforts to reduce costs and use of government assistance.

Wacoal Europe Ltd.:

Sales from Wacoal Europe on a local currency basis decreased by 24.0% (a decrease of 23.8% on a Japanese yen basis) as compared to such sales for the previous fiscal year. Sales for the first half of the current fiscal year decreased by 33.6% as compared to such sales for the corresponding period of the previous fiscal year due to the significant impact of the lockdown measures implemented in the United Kingdom and major countries in Europe. While signs of recovery were visible during the Christmas sale season, sales for the second half of the current fiscal year decreased by 12.6% as compared to such sales for the corresponding period of the previous fiscal year due to additional lockdown measures implemented during the current consolidated fourth quarter, which impacted our business operations. Sales from our

e-commerce business, which we launched in the previous fiscal year, exceeded our plan, and now accounts for 5.4% of sales from Wacoal Europe for the current fiscal year.

Although operating income on a local currency basis significantly decreased by 34.2% (a decrease of 33.9% on a Japanese yen basis) due to the impact of decreased revenue, we were able to record profit as a result of our efforts to reduce costs (excluding the impairment charges of ¥2,673 million on goodwill with respect to Wacoal Europe).

Wacoal China Co., Ltd.:

Sales from Wacoal China Co., Ltd. on a local currency basis decreased by 13.7% (a decrease of 15.3% on a Japanese yen basis) as compared to such sales for the previous fiscal year. Sales for the first half of the current fiscal year (from January to June) decreased by 25.8% as compared to such sales for the corresponding period of the previous fiscal year due to temporary closings of physical stores following the impact of COVID-19, despite strong sales from third-party e-commerce websites from aggressive distribution of our AMPHI brand products. For the second half of the current fiscal year (from July to December), while we struggled to attract orders through a large-scale promotion campaign conducted by e-commerce vendors in November, sales from physical stores (department stores) recovered due to strong sales from our "WACOAL" and "Salute" brand products, and as a result, sales increased by 2.6%.

Although operating income on a local currency basis significantly decreased by 31.2% (a decrease of 32.3% on a Japanese yen basis) due to the impact of decreased revenue, we recorded profit as a result of our efforts to reduce costs.

Peach John Business

Sales attributable to our "Peach John Business" segment were ¥12,200 million (an increase of 8.7% as compared to such sales for the previous fiscal year) as a result of our new product planning that met our consumer needs and development of trending content, as well as our successful marketing activities that were efficient in increasing the number of new customers and annual purchase frequency. Sales of our Peach John brand products sold in China, which were previously recorded under the "Wacoal Business (Overseas)" segment, are now recorded under this "Peach John Business" segment starting with the current fiscal year, and the business result for the previous fiscal year has been revised retroactively (the effect following such change (and one of the factors increasing sales) is approximately ¥507 million for the current fiscal year (approximately ¥744 million for the previous fiscal year)).

E-commerce sales through our website in Japan increased by 43.5% from such sales for the corresponding period of the previous fiscal year as a result of an increase in the number of new customers over the year, as well as the steady sales of our regular products. Sales from our retail stores, however, decreased by 11.9% due to the impact of the temporary closings of physical stores during the current consolidated first quarter, although the reduction of cost and improvement in the purchase rate of customers visiting our retail stores contributed to the strong sales after the current consolidated second quarter.

We recorded an operating income of ¥1,591 million (operating loss of ¥351 million for the previous fiscal year), a significant increase from the previous fiscal year. This profit was attributable to the positive impact of the increased revenue, the impact of improved gross profit rate from increased e-commerce sales through our website as a percentage of total sales and a lower percentage of sales subject to discounts.

Other

Overall sales attributable to our "Other" business segment were ¥12,516 million (a decrease of 36.2% as compared to such sales for the previous fiscal year), while we recorded an operating loss of ¥730 million (operating loss of ¥593 million for the previous fiscal year).

Lecien Corporation:

Sales from Lecien Corporation decreased by 19.9% as compared to such sales for the previous fiscal year due to the weak sales of our private products sold by general merchandise stores, which were impacted by our clients' expense control efforts over purchases. We recorded an operating income of ¥221 million (operating loss of ¥478 million for the previous fiscal year) due to our efforts to withdraw from underperforming businesses in the consolidated fourth quarter of the previous fiscal year and to reduce costs.

Nanasai Co., Ltd.:

Sales from Nanasai Co., Ltd. decreased by 39.1% as compared to such sales for the previous fiscal year due to our construction business weakened by the cancellation and postponement of new shop openings and various events following the spread of COVID-19. We recorded an operating loss of ¥358 million (operating income of ¥218 million for the previous fiscal year) due to a significant impact of decreased revenue, despite our efforts to reduce costs.

UNDERSTANDING, ANALYSIS AND CONSIDERATION WITH RESPECT TO STATUS OF BUSINESS PERFORMANCE, ETC., FOR FISCAL 2021

The management's understanding, analysis and consideration with respect to our group's business performance etc. are as follows. Any forward-looking statements contained below are based on our judgment as of the end of the current fiscal year.

(1) Basic Business Policy

Our business activities are built upon "relationships founded in mutual trust," which are based on our listening to the voice of each and every one of our customers, and continuously transforming our business with a sense of humility. This spirit of mutual trust and respect for humanity serves as the starting point for all of our business activities and has been our management philosophy since our establishment. Our group will continuously enhance our corporate value by making efforts to increase transparency in our corporate management and ensuring fairness and independence of our corporate management in order to build "mutual trust" in relationships with every stakeholder, including shareholders, customers, employees, business partners and the local community.

• Our Mission

We will contribute to society by helping women to express their beauty.

• Our Vision

We, the employees and management of Wacoal, will maintain a refined corporate culture based on mutual trust and will continually strive to make the Company a global leader in the industry.

• Our Value

1. Create products loved by customers
2. Develop new products that meet the needs of the times
3. Conduct business in a fair manner with a forward focus
4. Build a better Wacoal through better human resources
5. Fear not failure and boast not of success

(2) Our Medium- and Long-term Business Strategy and Measures for Business Targets

(i) Long-Term Vision

We continue to move forward with efforts to become "Global Wacoal as a Group", that is, to continue to offer pioneering products to the global markets by taking full advantage of our management resources and our group's network, and to gain reputation for our reliability from stakeholders around the world with our group's products and services as well as our commitments to social issues by cultivating new market opportunities for the undergarment industry.

Furthermore, in order to achieve a competitive edge in the global markets, we will invest in new business areas and growth opportunities

and rise to the challenge of realizing unprecedented growth. In addition, we will make efforts to continuously improve our management foundation, generate greater results, and thereby aim to achieve sustainable growth and enhance our corporate value, and make progress toward becoming a global company that is expected to continue to exist in 100 years.

Our goals of a "Global Wacoal"

1. The Wacoal Group's products and services and efforts to address social issues are highly trusted by customers and all other stakeholders in markets worldwide.
2. The number of countries and regions in which we operate continues to increase.
3. Under our Group network, we are operating businesses in a coordinated manner on a global scale.
4. We always provide pioneering products to the world and continue to lead the industry of innerwear culture.
5. The Group mission and philosophy are instilled in employees across the world.

Fiscal 2028 Targets

- Net sales: ¥300.0 billion (including sales through equity-method affiliated companies)
- Consolidated operating income and ROE: above 10%

(ii) Medium-Term Management Plan

To realize our vision to become "Global Wacoal as a Group", we will engage in efforts to achieve strong growth domestically and globally under the three-year medium-term management plan (FY2020-FY2022) by confronting reality and implementing fast reforms.

Basic policy

Understand the actual situation, estimate future demand and implement drastic reform, while emphasizing growth

- Achieve strong growth in Japan and overseas
- Examine the potential of unprofitable businesses and brands, and promote review and structural reform of group businesses where no business will be safe from such review or structural reform
- Enhance corporate value by improving economic and social values

Based on these goals, the medium-term management plan will pick up pace to address operational issues by expanding our customer service advanced by digital technology; implementing plans for unrivaled CX strategies* ; launching new high-value added products without regional boundaries; strengthening cooperation with key third-party EC websites and building our EC websites that match country and geographical characteristics; making investments in growth for business expansion in countries and regions where we have a market presence but our business remains small; reforming business models suffering from systemic fatigue; and building a highly competitive supply chain network.

To realize a sustainable society, we will make efforts to achieve advanced CSR procurement in cooperation with manufacturers that we outsource to, better live within the global environment through efforts to reduce plastic use and unsold inventory, and build an organization that encourages diversity and inclusion by taking advantage of diverse human resources. We will commit in a responsible manner to create new value through cultivation of a sustainable business foundation.

We will make stable distributions and make repurchases in a flexible manner, and will make efforts to improve profitability and capital efficiency through our business activities. We will also make efforts to maintain a real total return ratio of 100% excluding any gain (loss) on valuation of marketable securities and investments (recognized as other income (expenses) under the statements of income under the U.S. accounting standards). In addition, while we prioritize investments that

support sustainable growth of our business, we will seek to hold an adequate cash balance by reducing, as appropriate, cross-shareholdings with other companies.

* The "Wacoal Omni-Channel Strategy", our digital strategies under which we have promoted the installation of our 3D body scanning and AI (artificial intelligence)-based customer service system and integration between online and offline activities, has been renamed to "CX Strategies" to promote customer-oriented strategies and build a deeper relationship with each customer.

(iii) Group policies in response to spread of the new coronavirus pandemic

The business environment surrounding our group continues to remain difficult due to economic stagnation resulting from the global coronavirus pandemic ("COVID-19"). While vaccination has started in many countries and regions and we see progress toward the end of COVID-19, we must remain vigilant of the impact of COVID-19 spreading further especially in Japan, and the future remains uncertain.

Under such circumstances, we are moving forward with our initiatives to create a management structure that leads to high profitability based on the following policies for regrowth, while conducting business by prioritizing the safety and well-being of our customers, employees and partner companies.

<Basic Policies>

To prioritize the health and well-being of our customers, employees and partner companies

<Short-Term Policies>

- To implement cost reduction in response to deterioration in business conditions and to secure a stable financial foundation
- to reassess our current initiatives and spending plans in all business
 - to strengthen liquidity on hand in preparation for the prolonged impact of COVID-19
 - to adjust production to avoid having excess inventory resulting from decreased sales

<Mid- and Long-Term Policies>

- To conduct thorough inspection and renovation of the value chain
- opportunity to create management structure toward high profitability
 - to reassess current cost structure (promote initiatives to reduce fixed costs)
 - to accelerate initiatives on digital transformation
 - to review and rebuild customer touchpoints (in response to changes in key sales channels)
 - to develop products and services that our customers want to buy for their new lifestyle and to strengthen our capability to address new customer service and sale styles

Due to the impact of COVID-19, it has become difficult to achieve the business targets that we have initially planned under our medium-term management plan. During the fiscal year 2022, which is the last year of our current medium-term management plan, we will be in a phase to conduct structural reform to create a management structure that leads to high profitability, and will move forward with initiatives to correct the high-cost structure, the underlying issue we face. At the same time, we plan to continue to make investments in growth in the digital, IT and logistics business to maximize corporate value.

Under the above-described initiatives, our target for fiscal year 2022, which is the last of our current medium-term management plan, is to achieve net sales of ¥184.0 billion, operating income of ¥6.0 billion (ratio of operating income to net sales of 3.3%), and net income attributable to Wacoal Holdings Corp. of ¥5.5 billion.

(3) Issues to Address

The global COVID-19 pandemic has changed the values and awareness of well-being, and has brought significant changes to consumer behavior. The threat of COVID-19 continues to unfold, and while vaccination has started in certain countries and regions, we believe that full-scale recovery will take a long time as economic activities may continue to be restricted by infection prevention measures, in certain aspects, including on social outings.

We expect that consumer behavior will further change in the new normal after COVID-19. Consumers will likely continue to aspire to have a lifestyle that focuses on well-being and safety, and to select high-value added products or better services with real value. It is essential to be responsive to various changes in the awareness of consumers and to take appropriate measures that meet consumers' perspective in order to achieve regrowth in the "new normal."

Under such circumstances, we will move forward with our initiatives to create a management structure that leads to high profitability while conducting business activities that prioritize the safety and well-being of our customers, employees and partner companies. We will aim to build a deeper, broader and longer relationship with each customer by continuing to develop and provide products and services that consumers expect in their new lifestyles, which have significantly changed as a result of COVID-19, and by promoting our unique CX strategies, including on the merger between online and offline activities and utilization of a customer database, in efforts to improve customer experience.

In addition, as environmental problems continue to worsen, consumers' awareness of sustainability is evolving. We plan to move forward with our ESG (Environment, Social and Governance) management, which aims to grow by enhancing social and economic values, and to further address important issues such as governance, human rights and environmental issue. At the same time, we will promote establishment of an operating base that achieves sustainable growth through work-style reform (including teleworking), cultivation of human resources supporting business growth and creation of a corporate culture that offers job satisfaction.

CAPITAL RESOURCES AND LIQUIDITY

Our current policy is to fund our cash needs from cash flows from operating activities, which allows us to secure most of working capital, make capital investments, and pay dividends without relying on substantial borrowings or other financing from outside of our group companies. As of March 31, 2021, we had credit facilities at financial institutions totaling ¥80,464 million, and the balance of loan which established line of credit amounted to ¥42,204 million. Of these loans, ¥40,000 million is available to the Company, ¥1,218 million is available to Wacoal International Corp. and ¥671 million is available to Wacoal Europe Ltd.

In general, most of our credit facilities have automatically renewed terms, and we are not aware of any issues with respect to any of our lenders that could cause these facilities to become unavailable. Even if any of our subsidiaries loses access to funds from our credit facilities, we believe that it is possible for other companies in our group to provide any necessary funds. Our borrowing requirements are not affected by seasonality.

We are not aware of any restrictions on the transfers of funds from a subsidiary to a parent company in the form of a cash dividend.

Our group's business activities have been impacted by COVID-19 and our cash flows from operating activities may significantly decrease on a short-term basis. For this reason, we have set up new borrowing facilities with financial institutions after April 2020 to ensure liquidity on hand. We will reduce the cash outflow that had been planned for operating activities by reassessing it from scratch, and review the timing of new investments in order to ensure liquidity.

CASH FLOW STATUS

The balance of cash and cash equivalents at the end of fiscal year 2021 was ¥63,557 million, an increase of ¥35,652 million as compared to the end of the previous fiscal year.

(Cash flow from operating activities)

Cash flow provided by operating activities was ¥4,260 million, a decrease of ¥9,065 million as compared to the previous fiscal year, after adjustments for changes in assets and liabilities to our net income of ¥6,804 million plus adjustments for depreciation expenses and deferred taxes.

(Cash flow from investing activities)

Cash flow used in investing activities for this current fiscal year was ¥2,562 million, as compared to cash flow provided by investing activities in the amount of ¥2,569 million for the previous fiscal year, due to payments made to acquire tangible and intangible assets.

(Net cash used in financing activities)

Cash flow provided by financing activities for this current fiscal year was ¥33,605 million, as compared to cash flow used in financing activities in the amount of ¥17,471 million for the previous fiscal year, due to procurements of short-term loan and long-term debt, despite cash dividend payments, payments to acquire interests in subsidiaries from noncontrolling interests and contingent consideration payment.

SUMMARY OF CAPITAL INVESTMENT, ETC.

The amount of capital investment for the fiscal year ended March 31, 2021, was ¥5,604 million, mainly including expenditures for expansion of our MoriYama Distribution Center, information system investments incurred by our subsidiaries, and expenditures for the maintenance and repair of real estate.

The amounts of capital investment made in Wacoal Business (Domestic), Wacoal Business (Overseas), Peach John Business, and Other were ¥4,203 million, ¥1,097 million, ¥122 million, and ¥182 million, respectively.

DIVIDEND POLICY

Our basic policy on profit distribution to shareholders is to make stable distributions based on consideration of our consolidated performance, while seeking to increase our enterprise value through active investment aimed at higher profitability and to increase net income per share.

Our basic policy is to distribute earnings twice a year in the form of interim and year-end dividends and the Board of Directors is the decision-making body for distribution of earnings.

Based on such policy, we plan to distribute a year-end dividend of ¥20.00 per share as a distribution of earnings for the current fiscal year. As a result, the annual cash dividend per share, including an interim dividend of ¥20.00 per share, is ¥40.00 for the current fiscal year.

As for retained earnings, with the aim of improving our corporate value, we have actively invested in expanding new points of contact with consumers for our domestic business and our overseas businesses. We also plan to use our retained earnings in our strategic investments for maintaining competitiveness and reinforcing growth. With these efforts, we seek to benefit our shareholders by improving future profitability.

We also provide that the Company may distribute earnings subject to the resolution of the Board of Directors pursuant to the provisions of Paragraph 1, Article 459 of the Companies Act.

RESEARCH AND DEVELOPMENT

Our research and development activities are mainly conducted by our Human Science Research Center to achieve harmony between the human body and clothing and to support better product making.

Since 1964, we have been conducting research into the female body in order to accurately understand the Japanese woman's physique. In particular, we have developed a silhouette analysis system and introduced a three-dimensional measuring system. We are also working on an even more advanced measurement of sensory comfort. Our research and development activities focus on addressing the proportional, physiological, and mental aspects of garment design. One of our most important research results was the enrichment of our research on sensory comfort through our participation in a project led by the Ministry of Trade and Industry (presently the Ministry of Economy, Trade and Industry) from 1995 to 1998. Based on this research, we have been focusing on developing new products that are not only comfortable for the wearer, but also have a positive physiological effect based on the basic study from three factors, which are pressure, heat, and touch. In 2005, we developed and created a new market for our breakthrough Style Science series products, which support the creation of a healthy and beautiful body by changing the idea of everyday walking to walking for exercise. In 2010, we conducted an analysis and announced principles on the physiological changes associated with the aging period from a person's 20s to their 50s. We also strengthened the development of new products coping with aging and have been working on developing new functional products based on the lifestyle habits of people as they undergo small physical changes associated with aging.

Our Human Science Research Center is promoting research and development, which is based on a survey analysis of the body shapes and needs of young customers including customers of an age of which the products for the first time are introduced, and a senior generation.

During the current fiscal year, we conducted research and development focused on our body care products including wireless brassieres and bottoms that protect against gravity and on our body make products including size adjustable brassieres using new materials, thermostatic and flexible resin.

As a result of the above, we recorded ¥463 million for our research and development during the fiscal year ended March 2021.

Our research and development activities cover a wide range of research from basic research to product development, mainly of women's innerwear. Therefore, it is difficult to relate each of such activities to a specific segment, and thus, we do not provide information regarding such research and developments by segment.

In order to promote "the realization of an industry supporting women with unbounded living beauty," we will make efforts to enrich research and development activities that contribute to the improvement of customer satisfaction and corporate value based on the key concepts of beauty, comfort, and health. We will also work toward strengthening product appeal and developing new products or services that can gain support from and satisfy our customers.