Financial Strategy

We will implement rigorous measures to transform into a highly profitable company and forge ahead with the generation of ROE that exceeds the capital cost.

Review of the Previous Medium-Term Management Plan

During the previous medium-term management plan, which covered fiscal 2020 through fiscal 2022, our business results were disappointing and fell short of many numerical targets that were key performance indicators, such as net sales, operating margin, and ROE targets. We failed to reach targets primarily because the COVID-19 pandemic affected our operations across the board. Moreover, the failure of the Wacoal Business (Domestic) to sufficiently adapt to the environmental changes caused by the pandemic was especially regrettable and an outcome from which we need to learn lessons.

Particularly in fiscal 2022, as a consequence of being unable to fully adapt to changes in customer values and consumption behavior, Wacoal Corp. recorded operating losses for the second consecutive fiscal year. By contrast, in the United States and Europe, store visits recovered as restrictions on activities eased, and in Japan, Peach John Co., Ltd., surpassed its pre-pandemic net sales and operating income levels by offering products that resonated with consumers and by creating buzz through marketing initiatives. With a view to strengthening relationships with customers and catering flexibly to changes in purchasing behavior, Wacoal Corp. shifted the overall orientation of its organization from sales channels to sales regions in April 2021. Although we have made some progress in integrating customer bases and realizing reciprocal customer referrals between sales channels, the most pressing task is to expedite the establishment of capabilities that deliver the products customers want, when and where they want them, regardless of whether the sales channel in question is a department store, general merchandise store, directly managed store, or an e-commerce website.

Akira Miyagi
Director, Vice President,
Executive Officer and CFO
Wacoal Holdings Corp.

Progress of Profit Structure Reform

The Wacoal Group is progressing as planned with profit structure reform, which is aimed at transforming into a resilient corporate group through cost reductions of ¥10.0 billion during fiscal 2023. Among the main profit structure reform initiatives, the first entails reducing expenses at Wacoal Corp., which met cost targets set for fiscal 2022 by strengthening cost control and by curbing personnel expenses through the management of personnel plans.

The second initiative involves reorganizing and reforming the structures of underperforming businesses.

Thanks to structural reforms and e-commerce growth, Peach John has become highly profitable. Other domestic subsidiaries, meanwhile, did not improve their profitability in accordance with the previous medium-term management plan due to deterioration in the business environment. Nonetheless, respective subsidiaries have changed their cost structures by reforming operations through workforce reorganization and plant closures. As a result, these subsidiaries will be able to generate profits when the business environment improves to a certain extent. Beginning from the current fiscal year, we will continue improving profitability by reorganizing our businesses in light of their future prospects and our business portfolio.

Our third profit structure reform initiative is improving the sales margin by steadily reducing the number of brands and stock keeping units. However, we must closely monitor inflationary and exchange rate trends as well as other cost-increasing factors that have emerged recently but were not anticipated when preparing the structural reforms.

VISION 2030 and the New Medium-Term Management Plan

VISION 2030, a medium- to long-term management strategy framework, calls on the Wacoal Group to achieve sales revenue of ¥270.0 billion, an business profit ratio of 10.0%, and ROE of 10.0% by fiscal 2031. Further, in our new three-year medium-term management plan, we have established the achievement of sales revenue of ¥220.0 billion, an business profit ratio of 7.3%, and ROE of 6.0% by fiscal 2025 as milestones on the way to realization of the vision.

During the period of the new plan, we will lay the foundations for realizing VISION 2030 by launching an all-out effort to transform ourselves into a highly profitable company. Specifically, we will focus on restoring Wacoal Corp. to growth and profitability, leveraging e-commerce to expand overseas businesses, moving U.S. subsidiary Intimates Online, Inc., into the black, and improving the profitability of other businesses.

Among these measures, restoring Wacoal Corp. to growth and profitability is of particular importance. With the aim of achieving renewed growth, the company will take advantage of the new functions of its organization, which has been revamped to enhance responsiveness to changes in customers and markets. At the same time, the company will advance its original customer experience strategy, using digital technologies to innovate store services and link online and offline operations. We expect that the investments in IT systems and logistics facilities made as part of our customer experience strategy during the previous plan will contribute to sales revenue during the period of the new plan, and we will continue investing in future growth. Over the past three fiscal years, we have responded to sluggish sales by controlling costs to keep marketing costs down. However, strengthening our brand power and customer communications calls for stepped-up marketing investment. Even amid the COVID-19 pandemic, Peach John achieved significant growth by bringing products that reflected consumer needs to market and conducting trend-conscious customer communications. One conclusion to be drawn from this outstanding performance is that Peach John's marketing savvy has yet to spread throughout the Wacoal Group.

To return to profitability, we will continue advancing cost structure reforms, including the management of personnel plans. Specifically, we will reduce total personnel expenses as a percentage of net sales from fiscal 2022's 33.6% to 25.0% or lower by fiscal 2025. Although at first glance this may seem an ambitious target, the percentage is more than achievable if viewed based on the level of sales revenue prior to the pandemic. As well as thoroughly revising duties to lower employee numbers and to optimally deploy employees, we are seconding some employees to other companies. The aim of secondments is not simply to reduce employee numbers but rather to provide employees with useful opportunities to hone their skills and gain experience working at other companies.

In the medium to long term, while stabilizing the profit structures of existing businesses, we plan to venture into new business fields in Japan and expand our businesses overseas in countries and regions that we have not yet entered in earnest, such as India and Germany. Naturally, while supporting growth through the use of M&As and other means as required, we will also steadily progress toward the realization of VISION 2030.

Capital Policy

Initially, our capital policy under the previous medium-term management plan was to maintain a sound balance sheet, enhance shareholder returns, and improve ROE. However, in reaction to the COVID-19 pandemic, we gave first priority to securing liquidity on hand and stabilizing our financial base. Accordingly, we borrowed ¥40.0 billion, suspended the purchasing of treasury stock, and lowered year-end dividends. In addition, by securing cash inflows from gains on the sale of strategic shareholdings and sales of real estate, we were able to maintain a three-year total payout ratio of more than 100.0%, even while investing in the acquisition of U.S. subsidiary Intimates Online and the establishment of e-commerce distribution centers. However, ROE remained low.

Under the new plan, we will concentrate on increasing profitability and enhancing asset and capital efficiency. Improving profit margins is essential to the achievement of higher ROE. As profit margins are expected to steadily recover, we will enhance capital efficiency through such measures as providing shareholder returns. Also, by fiscal 2025 we will generate ROE that exceeds the cost of capital—a premise for the creation of enterprise value.

Guidelines for the financial strategies set out in the new medium-term management plan are as follows. First, as in the previous medium-term management plan, we will continue actively reducing strategic shareholdings. Further, our medium- to

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long-term benchmark for strategic shareholdings is 15.0% of net assets or less. With respect to shareholder returns, as we did during the previous plan, we hope to maintain a three-year total payout ratio of 100.0%. Also, we will flexibly purchase treasury stock to improve capital efficiency. In the absence of appropriate growth investments, we will provide additional returns to further improve capital efficiency.

Our approach to cash allocation during the period of the new medium-term management plan will be as shown in the chart at the bottom of page 63. Specifically, we plan the allocation of cash flows generated by business activities and asset efficiency improvement and of cash generated by the effective utilization of borrowings to existing investments, growth investments, and shareholder returns. As for growth investments, we will invest in IT and digital technologies to promote our customer experience strategy, and we will explore opportunities to invest in new businesses. As well as planning to pay total dividends of ¥20.0 billion over a period of three years, in May 2022 we announced that we intend to purchase treasury stock of ¥10.0 billion in fiscal 2023. In addition, plans call for growth investments of between ¥20.0 billion and ¥30.0 billion in new businesses. As mentioned above, however, if there are no suitable investment candidates, we will provide additional returns to improve capital efficiency.

Enhancement of Enterprise Value through ESG Initiatives

In enhancing enterprise value, environmental, social, and governance (ESG) initiatives are of course also important. For the Wacoal Group, ESG-related growth opportunities include such initiatives as the advancement of CSR-focused procurement, the reduction of waste, and the marketing of products that meet the needs of many different customers. Further, the establishment of traceable supply chains and other ESG-focused narratives that underpin and differentiate brands and products will be an important factor in increasing market shares and revenues.

In addition to promoting the aforementioned ESG initiatives, we must gain public recognition of them to effectively increase enterprise value. With this in mind, through customer services at stores, marketing activities, and investor relations efforts, we will proactively inform customers, consumers, shareholders, and investors about our advancement of ESG initiatives, thereby heightening trust. From a financial perspective, such communication activities will also curb the volatility of our share price. This will lower capital costs, contributing to enterprise value growth over the medium to long term.

Responsibilities as CFO

In the current fiscal year, we launched our new medium-term management plan. Especially with respect to the domestic business, we are very much aware that this will be a year of competition for survival. While doing everything in our power to cater to customers and markets so that we get back on a growth trajectory, we will rigorously tackle the issues left over from the previous plan.

Allow me to reiterate that, in terms of capital policy, we will utilize cash flows generated and procured through business activities, better asset efficiency, and financing for existing investments, growth investments, the purchase of treasury stock, and the provision of other shareholder returns with the aims of growing businesses, improving capital efficiency, and increasing ROE.

Since the early 2000s, the Company's price book-value ratio (PBR) has averaged below 1.0 times. As CFO, the most important key performance indicator that I have set for myself is to restore the slumping PBR to a level above 1.0 times as soon as possible by heightening the Group's profitability and capital efficiency.

Further, in formulating VISION 2030, the Group's governance-related material issues were identified as the implementation of highly transparent management, the strengthening of the risk management system, and the continuous improvement of profitability and capital efficiency. Accordingly, we will continuously strengthen Groupwide governance to address these material issues, thereby bolstering the foundations of the organization and facilitating sustained growth. In addition, with a view to enhancing the effectiveness of the Board of Directors, we will continue reforming the system for the compensation of officers and optimizing the composition of the Board of Directors in terms of ensuring expertise, independence, and diversity.

Although the business environment is expected to remain challenging, we will fully engage with our stakeholders and make appropriate forward-looking decisions so that we can advance decisively toward realizing the goals of the new medium-term management plan and VISION 2030.

Financial Policies during the Medium-Term Management Plan (Fiscal 2023–Fiscal 2025)

Primary Management Policies

Work on becoming more profitable as our highest priority and also aim to boost our ROE by improving both asset and capital efficiency

Prioritize investment in future growth and actively return profits to shareholders to improve our capital efficiency

ROE

6.0%

- Generate ROE that exceeds capital cost
- Work on becoming more profitable and aim to boost our ROE by improving both asset and capital efficiency

Reduce strategic shareholdings by

¥10 billion or more

- Continue actively reducing strategic shareholdings
- Aim for strategic shareholdings to make up 15% or less of our net assets in the medium to long term

Shareholders' equity

¥210 billion

- Continue investing in growth and improving profitability and capital efficiency in order to boost our ROE
- Consider utilizing interest-bearing debt from the viewpoint of improving our corporate value

Improve the 3-year cumulative total return ratio to get to

100% or more

- Pay out stable dividends at approx. a 50% or higher payout ratio
- Flexibly buy back shares to improve capital efficiency

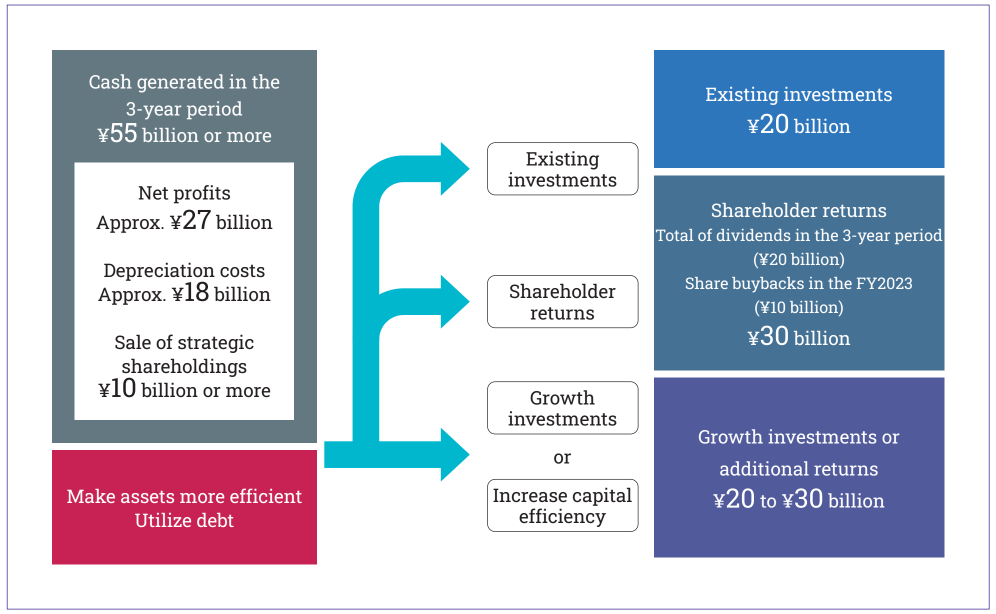
Plan for Investments and Shareholder Returns (Fiscal 2023–Fiscal 2025)

Growth Investments

- Invest in IT and digital technology in order to grow and consider opportunities to invest in new businesses
- Investments in existing businesses: ¥20 billion; Investments in new businesses: ¥20 to ¥30 billion

Shareholder Returns

- We plan for the total amount of dividends during this 3-year period to be ¥20 billion; the Company will also buy back ¥10 billion of its shares in fiscal 2023
- If we cannot find any appropriate growth investments, we will give additional returns to further improve our capital efficiency (¥20 to ¥30 billion)



Initiatives to Improve Management Effectiveness

Push for Group Management and Make the Group More Capable	• Establish a highly effective business management system in order to achieve our medium- to long-term targets • Start reviewing the compensation system to make the Board of Directors more effective