Major Items of the Revised Medium-Term Management Plan (Financial Strategy) |
A Message from the Director in Charge of Finance

We will transform our business model to improve earnings and capital efficiency, transition into a stronger profit structure, and achieve sustainable growth.

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

Review of Fiscal 2023 and the Medium-Term Management Plan

Fiscal 2023 shed light on the weakness of the Group's supply chain management in response to changes in customer needs and purchasing behavior. In some regions such as Europe, we were able to maintain our growth trajectory due to strong sales of our core brands, but in Japan, China, and the United States, results were significantly lower than initially planned due to the effects of COVID-19, sluggish growth in customer traffic at our retail stores, and restraints on purchases by business partners. In addition, due to the large impairment loss recorded in our U.S. operations, we recorded a loss for the first time since our founding. As previously announced, we expect to post a loss for fiscal 2024 due to weaker sales, the impact of structural reforms, and an impairment loss recorded due to our exit from the U.S. We fully understand that our shareholders and other stakeholders are deeply disappointed about the losses that we have incurred for two consecutive fiscal years.

The reason we fell short of the plan was the Group's inability to respond to changes in the external environment. Not only was our response to changes in consumer needs in terms of products and sales delayed, but our profit and loss planning was overly optimistic, resulting in delays in measures such as cost reductions. In addition, inventory controls failed to function effectively in response to sudden sales fluctuations and production delays in recent years, causing the Group's inventories to increase significantly over the past two years. In addition to overly optimistic market forecasts, there were inadequacies in management and supervisory functions, which limited the effectiveness of strategy, and many issues remain to be addressed in order to enhance profitability.

We take seriously the fact that the results of fiscal 2023, the first year of the medium-term management plan, fell significantly short, and determined that it will be impossible to achieve the targets if we do not change the way we manage the Company. For this reason, we decided to conduct a comprehensive review of our strategy. The revised medium-term management plan was formulated with a strong intention to accept the reality that we are disconnected from our customers and the market, and to transition to a structure that can generate large amounts of cash even in the face of drastic changes in the external environment. In the revised medium-term management plan, in light of the severe external environment, we have pushed back our goals by one year from fiscal 2025 to fiscal 2026, and revised our initial sales goal downward to ¥203.0 billion. On the other hand, we plan to improve capital efficiency by strengthening our ability to respond to changes in customers and profitability by reforming our business model and implementing our growth strategy, aiming for ROE of 7%.

Quantitative Targets for Wacoal in the Revised Medium-Term Management Plan

	Initial goal FY2025		Revised target FY2026	No change FY2031 (VISION 2030)
		+1 year		
Sales revenue	¥220 billion		¥203 billion	¥270 billion
Business profit	¥16.5 billion		¥13 billion	¥27 billion
Business profit margin	7.5%		6.4%	More than 10%
ROE	6%	+1 %	7%	More than 10%
ROIC	—		6 to 7%	More than 10%
EPS	¥200 or higher		¥200 or higher	—

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Restoring Basic Earnings Power through Business Model Reform

To restore Wacoal's profitability—a top priority for the Group—we intend to proceed with both cost structure reforms and supply chain management reforms.

With regard to cost structure reforms, we have been working to control various costs, including workforce plan management. As a result of carefully reassessing the outlook for future sales revenues in light of the current severe business situation, however, we have determined that further reform of the cost structure is necessary in order to transition to a structure that can secure a certain level of profitability. Specifically, as part of "brand selection and concentration," we expect to reduce production lines by 40% and the number of products by 10% by fiscal 2025, resulting in cost reductions of ¥1.9 billion. In addition, we believe that "lower manufacturing costs," "lower production and material costs," and "improved store profit/loss" will occur as a result of the review of the supply chain, and we expect a total effect of approximately ¥2 billion. In particular, with regard to "improved store profit/loss," we plan to withdraw a total of 32 stores, including 22 directly managed stores and 10 stores in department stores, for the fiscal year under review, and we are currently negotiating terms for the remaining 150 or so stores. The total cost reduction effect of these measures is estimated to be approximately ¥7 billion by fiscal 2026, and we plan to improve the profit margin by 3 to 4 points and SG&A expenses by 4 to 5 points compared to fiscal 2023.

In addition, we will consider plans to deal with unprofitable businesses and unprofitable subsidiaries. We have already decided to exit the LIVELY business of Intimates Online, Inc. in the U.S. and liquidate the company. For other businesses, we will examine the future approach without creating sanctuaries, and decide on an action plan for business continuity, sale, and withdrawal. During the period of the revised medium-term management plan, we will steadily implement these cost structure reforms and transition to a stronger earnings structure that will enable us to continue to invest in growth toward the realization of our VISION 2030.

Introduced ROIC Management to Strengthen Our Business Management Foundation

The fact that we receive many comments from investors and other external stakeholders shows that they want us to correct our losing habits, correctly evaluate the value of our brands, and boldly take on the challenge of growth. In fact, our business performance has been downtrodden for a long time, and we have been unable to achieve not only the goals set out in the medium-term management plan but also the initial plan for each fiscal year. Capital efficiency has also remained low. This was due to inadequacies in management and supervisory functions.

In the revised medium-term management plan, we deeply reflected on this point and decided to introduce ROIC management to improve capital efficiency. In addition to transitioning to management at the Wacoal Holdings, each operating company and each division that is more conscious of profitability and capital efficiency than ever before, we intend to generate cash by promoting disciplined business operations and continuously allocate these funds to human resources and growth investments to achieve sustainable enhancement of corporate. In preparation for the start of ROIC management in April 2024, we will hold briefings on the introduction of ROIC for the presidents and corporate officer of operating companies in Japan and overseas during fiscal 2024, and then proceed with the establishment of an ROIC tree for Wacoal Corp. In addition to using ROIC as an indicator for managing financial targets, we also plan to use it as a means of accurately measuring results, and in the future, we plan to link it to executive compensation.

Promoting Asset Reduction to Increase Capital Efficiency

We regard the return of profits to stakeholders as one management's tasks, and place emphasis on ROE. Currently, we recognize that our cost of equity is in the 6% range, and the ROE level of 7% set in the revised medium-term management plan is a figure that we should achieve at a minimum. Therefore, during the period of the revised medium-term management plan, we intend to improve profitability through growth strategies and cost structure reforms, as well as promote asset reduction such as lowering inventories, reducing cross-shareholdings, and restructuring real estate holdings. We will achieve ROE of 10% in VISION 2030 by improving the elements of net income margin, total asset turnover, and financial leverage, which represent ROE, even during the period of the next Medium-Term Management Plan, to restore our core profitability and strengthen our financial position.

In order to improve asset and capital efficiency, we have adopted a basic policy of selling assets that do not contribute to the enhancement of corporate value. At the time of sale, we will search for investment opportunities that will contribute to business growth and make investment decisions from the perspective of ROIC. First, with regard to the reduction of cross-shareholdings, we plan to sell approximately ¥30 billion worth of the agreed upon shareholdings, and reduce them to less than 10% of net assets by fiscal 2026. In addition, we will also verify our real estate holdings in accordance with our basic policy and respond accordingly.

Implemented items	Specific activities	Goals
Reducing inventories	● Reducing inventories through business model reforms (supply chain management reform and cost structure reform) ● Appropriate disposal of inventory resulting from the withdrawal and consolidation of unprofitable brands	Wacoal: Inventory turnover ratio in FY2026: 2.5 turns
Reducing cross-shareholdings	● Gradually selling the shareholdings that we have agreed to sell	During FY2024 to FY2026 we will sell approx. ¥30 billion of cross-shareholdings (Reducing less than 10% of net assets by FY2026)
Streamlining real estate holdings	● As for real estate that does not contribute to enhancing corporate value, we will proceed with consideration based on the basic policy of selling	While carefully examining the feasibility and validity, we will gradually respond (starting the phase from FY2024)

Growth Investments Focused on Capital Efficiency

The cash allocation plan for the period of the revised medium-term management plan can be found on page 26. Of the cash generated, net income is expected to be approximately ¥10 billion due to the impact of one-off expenses associated with structural reforms. As mentioned earlier, as a result of our efforts to reduce assets and use debt, we expect the total amount of cash generated over the three-year period to be around ¥110 billion.

On the other hand, in terms of cash used, we will continue to flexibly repurchase shares to improve capital efficiency, and we plan to pay dividends of approximately ¥15 billion to shareholders. With regard to growth investments in existing and new businesses, in addition to the drastic changes in customer needs and the purchasing environment, information and communication technology is rapidly evolving, which necessitates the determination of the technologies and systems that will contribute to the transformation of our business model. As for investments in existing businesses, we expect to invest in strengthening our own e-commerce, but we believe that it is necessary to conduct detailed verification of individual investments, run the PDCA cycle at high speed, and make appropriate corrections based on what we have learned. In terms of new investments, we will seek to expand our business footprint in Europe and invest in growth in the fields of beauty and health, as well as sports. We aim to improve the asset efficiency of the entire Group by searching for investment opportunities that contribute to growth and making investment decisions from the perspective of capital efficiency, and striving to maximize the effects.

A Message from the Director in Charge of Finance

Responsibilities as CFO

Based on the philosophy of “empowering people with the confidence that comes from looking and feeling their best” of our customers, we have aimed to make the lives of all people around the world better through the development and provision of innerwear that satisfies both the body and the mind. However, we were unable to abandon the manufacturer’s belief that “Wacoal’s products are good products, so if we make them, they should sell,” and we continued to make overly optimistic predictions that once the pandemic is under control, our business performance will go back to normal, which has created the current difficult situation. I myself solemnly accept that we will not be able to overcome this situation and will record losses for the second consecutive fiscal year. I believe that the key to growing again is for all employees to recognize the fact that they are in the current earnings situation as a result of this disconnect from customers and the market.

In the process of formulating the revised medium-term management plan, we held a number of discussions with an unwavering determination to never undertake painful reforms again. In order to restore solid profit growth, going forward, we will check the effectiveness of our strategies at the Board of Directors and the Group Strategy Committee while cooperating with external directors to regularly monitor profitability, and make prompt management decisions according to business conditions. In addition, we will revitalize internal communication and encourage the creation of new corporate value through collaboration between departments. The situation surrounding the Group is becoming increasingly severe. In order to steadily put the Group back on a path of growth, we will return to the customer's perspective and undertake business revitalization with a fresh mindset.

Introducing ROIC management

It has been decided to introduce ROIC management at the Group to improve capital efficiency and achieve a muscular corporate structure. ROIC will not only be used to manage company-wide financial targets, but also as a performance management tool to accurately measure results, quantitatively linking onsite improvement activities with the improvements in profitability and capital efficiency expected by investors and other stakeholders.

In fiscal 2024, Wacoal Corp. launched a project to create an ROIC tree, and starting in fiscal 2025, the company will operate its businesses using ROIC. Furthermore, the company plans to link this to the compensation of officers starting in fiscal 2026 in order to increase the certainty of achieving targets and effectiveness of related strategies.

■Purpose of Introducing ROIC Management

Strengthening business management functions

Use with a corporate perspective

Financial assessment of target achievement status
- ▶ Managing financial targets across the Company
- ▶ Optimizing the business portfolio
- ▶ Managing new investment profitability

Use with a business operation perspective

Ensuring strategy effectiveness
- ▶ Managing capital returns by the operating company
- ▶ Improving capital returns using the ROIC tree
- ▶ Linking with PDCA management and performance evaluations

Achieving a return exceeding capital costs

Cash the Group generates (return) − Inventors/banks’ expected return = Source of growth

Profit as percentage of capital (ROIC) | Inventors/banks’ expected yield (WACC) | Corporate value (ROIC spread)

Wacoal Group about 6%

Growth investments (reinvestments) and return to multi-stakeholders

■Introducing the Process of ROIC Management to Business Departments

KPIs	Target Companies	Inculcation Process		
		FY2024	FY2025	FY2026
FY2026 ROIC 6 to 7%	HD	● Consider introducing ROIC ● Conducting simulations to grasp ROIC values	● Starting ROIC management	● Linking to compensation
	Wacoal (Japan)	● Sharing ROIC management introduction policy ● ROIC study meetings ● Incorporating into business activities (ROIC tree building)	● Starting ROIC management	● Linking to compensation of officers ● Linking to compensation
	Domestic and overseas subsidiaries	● Sharing ROIC management introduction policy	● ROIC study meetings ● Incorporating into business activities (ROIC tree building)	● Starting ROIC management ● Linking to compensation