

Interview with an External Director

## In order to achieve the “total optimization” required of the Wacoal Group, I will provide valuable feedback from an external perspective in an effort to enhance the Company’s corporate value.

Koji Nitto External Director



### Issues Faced by Wacoal Group and the Role of External Directors

#### — You were appointed an external director in June 2023. What are your thoughts since taking up your position?

In April 2023, I was asked to become an external director after a request was made to increase the number of external directors. Honestly, I was surprised by this development. Even before I took office, I was aware that Wacoal was struggling in terms of performance. Yet, I didn’t expect the situation to be this severe because Wacoal is one of Kyoto’s leading blue-chip companies. While talking with the management,

I felt a keen sense that the company needed to change. I decided to take on the job because I thought that my knowledge would be useful to the Wacoal Group. Above all, I wanted to help turn around the company because it is headquartered in Kyoto, similar to OMRON Corporation, where I worked previously.

After starting my role, as I began to understand the internal situation and the expectations of external stakeholders, the opinions and suggestions of investors were quite natural based on my perspective of having held positions

in finance and as CFO in my previous job. I knew deep down that it was now or never for Wacoal to transform itself.

#### — What issues does the Wacoal Group face?

Wacoal is a powerful brand that leads the innerwear market in Japan. There are many talented people at the company, who work hard and make high-quality products with confidence in their manufacturing. Therefore, there is a strong tendency to carry on with the status quo, almost to a fault. Although it tried new things in the past, the company was unable to transform its core parts. However, the needs of the world are changing. We find ourselves in an era where certain companies are now competing against one another, even though we thought this would never be the case. If the assumptions of the business environment have changed, Wacoal’s approach to doing business must also change. Wacoal has upheld the notion that its “manufacturing is unique,” and the fact that it did not pursue reforms has led to the current difficulties in performance.

In 2022, the Wacoal Group systematically defined its management philosophy and formulated the medium- to long-term management strategy framework called VISION 2030. This framework is put together very well. Yet, I feel that what the company aims for in 2030 and what it will do to achieve it is not shared internally, leading to a disconnect with individual work. Given the severity of the external environment, the company has not been able to produce results, so it appears as if the company is actually only working on cost cutting from a short-term perspective. Without a strategy that motivates employees to work hard and is supported by shareholders, it is impossible to aim for medium- to long-term growth and sustainable corporate management. In that sense, I thought the plan lacked connection.

#### — With this current situation in mind, how were you and other external officers involved in the process for formulating the revised medium-term management plan?

At my previous job, the basic stance of governance was that directors were responsible for monitoring and supervision, and that business execution was entrusted to internal directors who also served as executives. For example, when formulating strategies and measures, external directors naturally gave their opinions, but they were not involved in actual business execution. From the executive’s point of view, the Board of Directors existed to rubber stamp their projects. An ideal style of governance is one where such oversight, supervision, and execution are separated and supported by a relationship of trust.

However, the role of monitoring and supervision as an external director is only one function behind the enhancement of corporate value. When I thought about the current situation at Wacoal, the significance of being invited to serve as an external director at this time, and the expectations of Wacoal, I have made it a point to communicate closely with the management team and focus on everything I can do to enhance Wacoal’s corporate value and restore its performance. This does not mean that I’m on the business execution side. As an external director, I hope to provide maximum support to the management team in formulating highly effective management strategies and implementing them with a sense of urgency.

Change requires ensuring that management philosophy and goals are shared within the company, and that executives and employees are on the same page as they work together to achieve them. Considering the current situation of the Wacoal Group, it was necessary to clarify the direction of the medium-term management plan and formulate a detailed action plan with a high degree of effectiveness. In this regard, I provided quite strong input from an external perspective. Other directors have endorsed my contributions. The revised medium-term management plan was formulated by internal directors and corporate officer with the support of an external consultant. External directors were also deeply involved in the process of formulating important agenda items.



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## Strengthening Connections to Enhance Corporate Value

— ROIC management, which was introduced as part of the company's revised medium-term management plan is one of your specializations. Were there any issues associated with its introduction at Wacoal Holdings Corp.?

ROIC management balances “earnings power” and “the power to create value,” which helps strengthen each function of the company. However, it is up to each and every employee to make this possible. ROIC management cannot be achieved unless the corporate officer and related members look in the same direction across departments and understand and agree on what needs to be done. The most important thing to be competitive as an organization is to be aware of “connections.” When introducing ROIC, I insisted on this point very strongly. Things are inherently connected by a causal relationship. Internally, however, the reality is that there is a mixture of clear causal relationships and opaque relationships. For example, if the company wants to reduce inventory while securing sales, the sales department can only accomplish so much alone. In order to optimize the product mix in stores, improve the supply ratio, and build out a production system to prevent excess inventory, the production and planning departments must also discuss matters together. By being thoroughly aware of how business and departments are connected, Wacoal Holdings Corp. can determine what is needed and what is not necessary to achieve its goals.

I've said that Wacoal Holdings Corp. has a corporate culture in which each individual is serious and works hard. On the flip side, though, this also means that Wacoal is a company that has an extremely strong tendency to toward departmental or partial optimization. What the Wacoal Group needs now is the concept of total optimization. Departments and individuals must work together as a team to fulfill their individual roles and move flexibly toward a shared goal. Fortunately, however, each of Wacoal's divisions has a high level of competence, so the company can maximize its potential by reviewing and connecting existing ways of thinking, methods, and priorities.

In the process of formulating the revised medium-term management plan, I repeatedly explained three things. First, the importance of understanding that supply chain management can be fatal if it fails in even one place. Second, in order to fully realize its potential, the supply chain must be connected end-to-end from procurement to customers. Finally, no matter how much new product development or brand development the company may accomplish, it is meaningless unless the company can deliver products to

customers in a timely manner. “Supply chain management reform” is the first agenda item in the revised medium-term management plan. This is proof that the executive team understands the importance of cooperating and connecting with the perspective of total optimization. The other thing is to be aware of the sense of urgency and take action.

— In terms of total optimization, the company clarified its plan for asset reduction.

ROIC management is about how to efficiently manage the money you receive and achieve high yields. From that perspective, if there are assets that do not contribute to the bottom line or corporate value, the company's overall performance will appear to decline, which should be avoided. Wacoal Holdings Corp. should continue to generate profits by providing products and services in the innerwear market and the fashion industry. There is no need to have assets that do not contribute to this core business.

In order to revamp management, it is essential to clarify and promote the basic policy of asset reduction and to utilize the funds obtained from this policy to invest in employees, as they are responsible for the revised medium-term management plan. Or the funds should be returned to shareholders and invested in businesses.

— Wacoal Group is making progress with structural reforms. What changes are being made to the Board of Directors?

President and CEO Yajima and Vice President Miyagi believe that outside knowledge is extremely important for the Wacoal Group today. They want board members to be free to express their opinions. The two of them continue to hear tough talk, with some painful points and unprecedented proposals. The Board of Directors is serious about the situation and able to have a deep discussion on each agenda item. There is no sense of distance between internal and external directors.

This stance has had a positive impact on everyone on the executive side. Participants in board meetings take a positive view of our opinions and proposals and work together to exchange opinions on reforms for the Wacoal Group. Discussions and information exchanges between external directors and executives actively take place away from board meetings. In the future, I would like to further engage both to push back on execution, while monitoring and supervising, which will help to speed up reforms.

— With the transformation of its corporate structure under a new management system, how do you view the Wacoal Group going forward?

In reviewing the medium-term management plan, the Board of Directors held considerable discussions on the basic approach to formulating the plan. As a result, we came to the conclusion that the Wacoal Group would incorporate everything that needed to be done without compromise. The final product was the revised medium-term management plan. In particular, the plan is backed by supply chain management reform and brand strategy. I would like to speed up the process a little more. Although the external environment is also uncertain, I would like to see the company exceed the figures set in the revised medium-term management plan at the very least. Therein, the motivation of workers becomes important. Employees need to move in the same direction and move forward with a sense of unity as a company, but this depends on whether all employees can incorporate the revised medium-term management plan revision into their own work and take action. However, just showing the target number will only cause pressure. This will not motivate employees. In order to make the power that comes from employees' love for Wacoal into the strength of the company,

I have told the executive management team that I want them to create opportunities to talk about difficulties, dreams and hopes for the future. The long-term slump in business performance may have opened up a gap between management and employees. Yet, communication to deepen mutual understanding is something that must be done even if it takes time and money.

If it sees results in the future, the company will be able to have a sense of reality and expectations regarding the achievement of its goals and the goals set forth in the VISION 2030. That is, the company should be highly motivated. In that sense, the revised medium-term management plan is an especially important period. In addition, ROIC management and improvement of capital efficiency are only a means to enhance corporate value. Achieving an early recovery into a corporate entity capable of generating cash, appropriately returning the generated cash to stakeholders, and redirecting this cash to growth investments for the next stage of growth will lead to the realization of the Wacoal Group's corporate philosophy. Utilizing my own knowledge, I will continue to provide strong input and supply a variety of supports that contribute to Wacoal's growth and enhancement of corporate value.

## Profile

## Koji Nitto

After graduating from the Department of Instrumentation Engineering, Faculty of Science and Technology at Keio University in March 1983, Koji Nitto graduated from Doshisha Business School in March 2006. Nitto joined Tateisi Electronics Co. (currently, OMRON Corporation) in April 1983. He was appointed an executive officer of OMRON Healthcare, Inc. in April 2008. He was appointed as Director, Senior Managing Executive Officer, and Senior General Manager of the Global Strategy HQ, OMRON Corporation in June 2014. Nitto became Director, Senior Managing Executive Officer, Chief Financial Officer (CFO), Global Strategy HQ, OMRON Corporation in April 2017 (stepping down in March 2023 and retiring in June 2023). He was appointed as an external Director of Wacoal Holdings Corp. in June 2023. He has also served as a Director of the Japan Association for Chief Financial Officers, and Director of the Center for iPS Cell Research and Application, Kyoto University.

