Wacoal’s Initiatives in FY2022 and Review of 1H

Tomoyasu Ito

Director, Vice President and Corporate Officer; Representative Director, President and Corporate Officer of Wacoal Corp.

November 11, 2021
Review of 1H of FY2022

The easing of restrictions concerning coronavirus infection (hereafter “COVID-19”) has led to a significant improvement in business conditions in the United States and Europe. However, the domestic market has remained extremely sluggish. In October, the environment for domestic business gradually improved.

*The figures for the U.S. and Europe in October are preliminary ones rather than definitive ones.
Challenges facing Wacoal (Japan) over the long term

- Continued decline in the top line due to delays in responding to changes in the distribution environment
Challenges facing Wacoal (Japan) over the long term

- Directly managed stores and e-commerce grew, but not enough to compensate for the decline in sales in the wholesale channel.
Challenges facing Wacoal (Japan) over the long term

- The "high cost structure" issue reappears as the wholesale business slows down.
- Decline in operating income per capita

Variation in Operating Income/Loss of Wacoal Corp.
(Reference 1) Changes in the profit structure
Wacoal (Japan)'s long-term challenge is to acquire "the ability to respond to change."

In order to achieve renewed growth, it is necessary to evolve into a resilient organization by implementing growth strategies that leverage Wacoal's unique strengths and promoting steady structural reforms to reduce cost. (Efforts have begun since the current medium-term management plan, but further speeding up is necessary due to the impact of COVID-19)

**Initiatives for FY2022 to achieve renewed growth and a highly profitable structure**

<table>
<thead>
<tr>
<th>Promotion of CX strategy</th>
<th>Digitalization and personalization</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value chain reform from the perspective of customers</td>
</tr>
<tr>
<td></td>
<td>Implementation of a new brand strategy</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost structure reform</th>
<th>Promotion of staffing plan management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Implementation of efficient marketing strategies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Promoting Sustainability</th>
<th>Re-identification of key issues for business growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strengthening of measures for dealing with the issues of human rights and the environments</td>
</tr>
</tbody>
</table>
Promotion of CX strategy

- Digitalization and personalization
- Value chain reform from the perspective of customers
- Implementation of a new brand strategy
Building "deep, broad, and long" relationships with customers by improving the value of customer experience and creating a stress-free purchasing environment

"Increase of new customers" x "Development of loyal customers" = LTV expansion (maximization of the customer pyramid)
A new approach to customers

To increase contact points with new customers, strengthen relationships with existing customers, and improve efficiency of store operations through digitalization and personalization initiatives

Issues with conventional approaches
- Contacting customers from the clients’ point of origin
- Increase of customers who feel stressed by existing services
- Store operations are mainly manual and inefficient.

Sales staff provide face-to-face customer services.

Contact points with customers for each channel/store
- Department Stores
- GMS, supermarkets
- Specialty stores
- Directly managed stores

Customer data are fragmented among business sections.
- Wholesale Business Division
- Retail Operation Division

Creation of new products and businesses based on personalization data
- Increasing loyal customers
- Attracting the young generation
- Maximizing sales opportunities

Provision of personalized customer services and evolution of communication

Innovation of in-store services based on digital technology and cross-channel contact points with customers

New Customer Service
- Personalized apps
- 3D body scanner
- AI/avatar-based customer service

New Store Management
- Digitization of customer records
- Customer service tablet

Customer information
Product information
Stock information

Company-wide database integration
To accelerate the pace of CX strategy and improve its effectiveness through value chain reforms from the perspective of customers:

- To optimize the allocation of personnel and products by area, enhance product planning, and improve marketing efficiency

### Before Reorganization

- Wholesale Business Division
  - Sales
    - (department stores, GMS supermarkets, and specialty stores)
  - Product planning
  - Marketing

- Retail Operation Division
  - Sales
    - (directly managed stores)
  - Product planning
  - Marketing

### After Reorganization (from April 2021)

- Sales Division
  - Directly managed stores
    - Department stores
    - GMS supermarkets
    - Specialty stores

- Innovation Strategy Office
- Human Chemical Research Institute
- Technology and Production Division
- Customer database
- Brand Group
  - Linked planning / MD

### Efforts to Accelerate

- Integrate and coordinate off-line and online operations (provide a stress-free shopping experience)
- Establish a sales structure that strikes a balance between self-managed business and wholesale business
- Implement regional marketing (optimal deployment of personnel and products in each region)
- Improve store revenue and centralize management of inventory
- Consolidate core brands and strengthen marketing (maximize brand value)
Restructuring of the sales system from the perspective of customers and implementation of area marketing

From Integrated Report 2021

(Reference 2)
Shift to self-managed business through collaboration and integration of online and offline activities

Have online operations account for 25% of net sales, and have directly managed stores account for 40% of the off-line portion.

<table>
<thead>
<tr>
<th>Business model</th>
<th>Channel</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY2020</td>
<td>FY2025 target</td>
</tr>
<tr>
<td>Self-managed business</td>
<td>Directly managed stores</td>
<td>Approx. 20%</td>
</tr>
<tr>
<td></td>
<td>(Including tenant store openings in department stores)</td>
<td></td>
</tr>
<tr>
<td>Wholesale business</td>
<td>Department stores</td>
<td>Approx. 80%</td>
</tr>
<tr>
<td></td>
<td>GMS supermarkets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Specialty stores</td>
<td></td>
</tr>
</tbody>
</table>

From Integrated Report 2021
Implementing a new brand strategy with the aim to provide value for each customer segment rather than for each channel

- Consolidation of brands to adapt to distribution changes, strengthening of brand marketing, and maximization of return on investment

**Issues with conventional brand development**
- Channel-driven brand structure
- There are customers who cannot be contacted in some areas
- Increase in sales promotion costs due to the increase of brands

**New brand development**

**Contact points with customers via core brands**

**9 core brands**

- [Main brands we offer]

**Family brands**

- 9 core brands
- License brands
- Constituent brands: 22 brands
- License brands: 3 brands
- Imported brands: 3 brands

**Sub-family brands**

- 22 brands (Spring/summer in 2019)
- 37 brands (Fall/winter in 2021)
(Reference 4) Strengthened points of core brands of innerwear
(Reference 5) Price range of bras of core brands
Even if it takes time for sales to recover and for the Company grow in the midst of rapid changes in the business environment, we aim to change our business structure to the one that can secure higher profitability than before (to be continued in the next medium-term management plan).

KPIs for FY2022 (vs. the existing business in FY2020)

**Improvement in store profitability**
- Shift to self-managed stores
- Redesigning the sales floor environment (From multiple floors to a centralized sales floor)
- Reassessment of transaction terms, etc. (Revision of ratio of wholesale price to retail price, adoption of a new personnel structure and a new store manager system)

**Optimization of personnel costs**
- **About ¥2 billion**
  - Effect of personnel cost control through staffing plan management: ¥5 billion by FY2024

**Optimization of other expenses**
- **About ¥2 billion**
  - Amount of reduction excluding investment for growth

**Improvement in profit on sales**
- Brand consolidation and product lineup reduction
- Reduction of inventory, curtailment of write-downs through the decrease of returns, etc.
Changes in the environment surrounding the Wacoal Group (changes in the recognition of sustainability)

- **Worsening of global environmental problems**
  - Stagnation of business activities due to the increased frequency of abnormal weather caused by global warming
  - Contribution to the Paris Agreement and the Japanese government's declaration of carbon neutrality

- **Changes in the supply chain**
  - Rise in awareness of human rights and environmental issues in the supply chain
  - Addressing supply chain issues became a corporate responsibility.

- **The generation that practices new consumer behaviors**
  - The contribution to solving social issues such as the SDGs determines consumption behavior (corporate selection).
Environmental goals for 2030

- **In-house emissions “Zero”**
  Aiming to reduce our own emissions to zero, we are gradually switching to renewable energy sources.
  (Target: Domestic business)

- **Product disposal “Zero”**
  To reduce the ratio of product disposal from 1% to zero.
  In addition, we are promoting initiatives to reduce the disposal of waste materials at our plants.
  (Target: Wacoal Corp.)

- **Environmentally friendly materials "50%"**
  To increase the percentage of environmentally friendly materials used to "50%"
  (Target: Wacoal Corp.)

- Targets for reducing greenhouse gas emissions in the supply chain will be disclosed in the spring of 2022.
- Long-term targets for environmental activities toward 2050 will be disclosed in the spring of 2022.
- As for overseas business initiatives, we will start with a survey of our own emissions, and set targets as the timing allows.
Survey on Greenhouse Gas Emissions in the Supply Chain

- First calculation of greenhouse gas emissions (Scope 3) for the entire supply chain of the Wacoal business (in Japan), in order to promote efforts to realize a decarbonized society and further ensure the reduction of greenhouse gas emissions in the supply chain.

- Responded for the first time at the end of July 2021 to the Climate Change Questionnaire of CDP, an international non-profit organization, in order to promote disclosure of information on climate change initiatives.

- Wacoal business (Japan) emitted approximately 340,000 tons in the supply chain. Based on these results, the Company will discuss emission reduction targets for the supply chain and plan to set them during the current fiscal year (year covered by the survey: FY2020).
Review of 1H

YUE, a new brand launched in the fall/winter season of 2021
Progress of CX strategy

- Existing purchasing customers increased, but we struggled to acquire new customers.

### 3D development

**Progress in 1H**

- Due to the prolonged impact of COVID-19, the number of 3D Smart & Try installations was smaller than initially estimated (at the time of production of the medium-term management plan).

- In 1H of the year, about 22,000 people took measurements, of which about 30% made a purchase. (Annual number of people measured in FY2021 was 38,000.)

### Acquiring new customers

**Progress in 1H**

- New customer acquisition progressed **only 44% against the plan**, mainly due to people refraining from visiting shops.
  - *New customers:* Number of new members registered among purchasers

- Average unit price dropped from the same month last year due to sluggishness of performance of physical stores caused by COVID-19.

### Converting existing customers into loyal customers

**Progress in 1H**

- The number of existing purchasing customers was **62% of the plan**.

- Sales from existing customers were **only 43% of the plan** as a result of sluggish purchases due to the prolonged impact of COVID-19.

### Growth of EC

**Progress in 1H**

- EC sales exceed the high level in the same period last year
  - Own EC: +1%
  - 3rd party EC: +11%

- EC sales account for 23% of total sales (including own and 3rd party EC)
Progress of cost structure reform

- Cost structure reforms are progressing as planned

### Optimization of personnel costs
- **Progress**
- Reduction of approximately ¥2 billion from 1H of FY2020 due to progress of the staffing plan, the review of bonus standards, etc.
- Excluding temporary effects (increase/decrease in retirement benefit expenses), personnel cost reduction on an actual basis was approximately ¥1.3 billion. (65% progress against the plan)

### Optimization of other expenses
- **Progress**
- Reduction of approx. ¥1.5 billion from 1H of FY2020 by controlling sales promotion expenses based on the external environment, etc.
- Excluding the postponement of expenses, the actual cost reduction was approximately ¥1.2 billion. (65% progress against the plan)

### Improvement of store profitability
- **Progress**
- Progress has been made in converting into self-managed stores (fixed leases and buying sales) and revising transaction terms accordingly.
- Of all 186 department stores, approximately 55% with fixed leases or buying sales

### Brand and lineup consolidation
- **Progress**
- Consolidation of high-end brands and launch of the "YUE" brand
- The product lineup shrank due to the decrease of brands and groups.
- The number of products for the fall/winter in 2021 was down approximately 20% from the previous fiscal year, and approximately 30% from the final year of the previous medium-term management plan.
Information within this document with respect to future business performance figures is based on Wacoal’s assumptions in the light of the information currently available, but in no way guarantees or promises actualization or achievements thereof. Furthermore, the information is subject to change without notice. Although the information is published with the greatest care, our company will not take any responsibility whatsoever regarding any error in the published information.