

# **Fast Retailing Future Strategy and Outlook**

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- **Our ultimate aim**
- **Review of FY2017 first-half results and full-year estimates**
- **Ensuring future growth in rapidly changing markets and a dramatically changing world**
- **Carving an entirely new business model by commercializing information**

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Good afternoon. I am Tadashi Yanai, president, CEO and chairman of the Fast Retailing Group. Today I would like to talk to you about a number of strategic topics. What ultimately inspires our business, how we can ensure future growth in a dramatically changing market, and what kind of company we want to become in the future.

## **Our Ultimate Aim**

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Let me first talk about Fast Retailing's ultimate aim as a company, our reason for being.

**Changing clothes.  
Changing conventional wisdom.  
Change the world.**

**Our Ultimate Aim**

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Changing clothes. Changing conventional wisdom. Change the world.

That is Fast Retailing's long-held corporate statement. Our ultimate mission as a business is to help make the world a better place through clothes. A business that simply pursues profit is of little value or meaning. All businesses need a clear sense of mission and responsibility to be truly successful. We believe passionately in our mission, and our actions reflect that.

**Foster human resources,  
formulate new technologies,  
products and services**

**That's what companies are all about**

**Our Ultimate Aim**

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As a listed company, it is essential that we generate solid profits. Naturally, if we don't generate a good profit, it would be difficult to continue in business or to expand. For that reason, I believe the ultimate aim of a company in a market economy should be to expand production, and, at the same time, to foster human resources and formulate new technologies, products and services that help make the world a better place.

I have abided by that principle throughout my business life. I have been lucky enough to experience the empathy and support of a wide range of customers and business partners, and I am very grateful for that. Those principles and that support have enabled us to grow into the healthy corporate group we are today.

## **Review of FY2017 First-Half Results and Full-Year Estimates**

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Talking about group performance, let me take a moment to review our first-half business results for fiscal 2017.

## Fiscal 2017 1H Results (Sept. 2016 – Feb. 2017)

Revenue	¥1.0175 trillion	+ 0.6% y/y
Business profit	¥128.7 billion	+ 21.2% y/y
Operating profit	¥130.6 billion	+ 31.5% y/y
Profit attributable to owners of the parent	¥97.2 billion	+ 106.7% y/y

**Review of FY2017 First-Half Results and Full-Year Estimates**

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As our CFO Takeshi Okazaki just mentioned, the Fast Retailing Group achieved gains in both revenue and profit in the first half of fiscal 2017, or the six months from September 2016 through February 2017. In fact, operating profit expanded by impressive 31.5% year on year.

To pick out a few key features, UNIQLO International reported a large increase in operating profit of 65.9% year on year, thanks to especially strong profit contributions from Mainland China and Southeast Asia. We also conducted a further Group-wide cost-cutting drive in the first half.

Our low-priced GU casual fashion brand recorded a decline in profit in the first half, but operating profit will recover in the second half from March through August 2017.

Our UNIQLO operation in the United States reported a significant contraction in operating losses, and we intend to continue transforming that operation's business structures and processes.

## Fiscal 2017 Estimates (Year to August 2017)

Revenue	¥1.8500 trillion	+ 3.6% y/y
Business profit	¥180.0 billion	+ 11.1% y/y
Operating profit	¥175.0 billion	+ 37.5% y/y
Profit attributable to owners of the parent	¥100.0 billion	+ 108.1% y/y

**Review of FY2017 First-Half Results and Full-Year Estimates**

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For the full business year through August 31, 2017, we expect the Group to report rising revenue and profit.

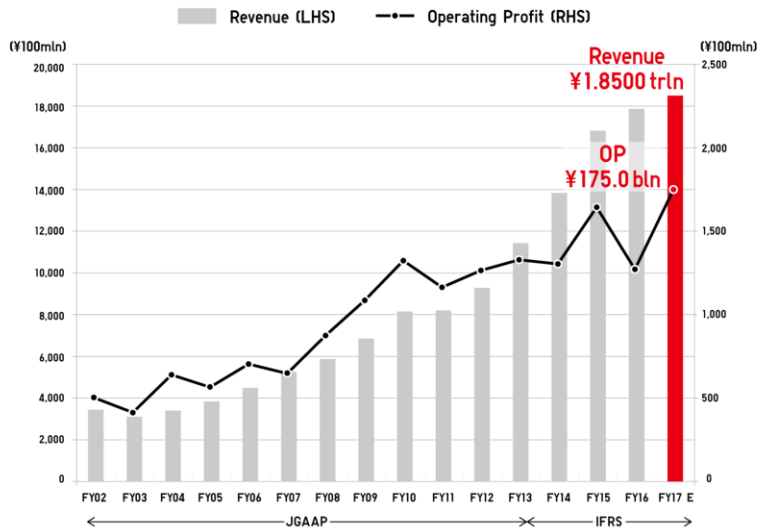
UNIQLO Japan is expected to generate gains in both revenue and profit, while UNIQLO International is expected to serve as the key driver of profit growth for the business year.

We expect the full launch of our Ariake Office in February 2017 will enable us to start transforming ourselves into a digital consumer retailing company.

For our shareholders, we intend to offer the same level of dividend for fiscal 2017 of ¥350 per share.



# Fast Retailing Performance



Slide 9 graphs our business performance from fiscal 2002 to the present day. As you can see, we expect to generate gains in both revenue and profit in fiscal 2017.

## **Ensuring Future Growth in Rapidly Changing Markets and a Dramatically Changing World**

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Let us look now more broadly into the future, how the world is changing, and how we can continue to capture future growth in an evolving market.

# Globalization and digitalization invoke drastic changes in world structures

Ensuring Future Growth in Rapidly Changing Markets and a Dramatically Changing World

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The processing power of semiconductors have increased dramatically over the past decade, and I believe the same trend will continue into the future.

As we move into a 5G era, we will have instant access to moving images, still pictures and sound recordings. We will be able to access limitless memory through cloud storage. In some areas, artificial intelligence (AI) have already surpassed the capability and capacity of the human brain through algorithm and deep learning.

I believe that all traditional industries will eventually decide to change course and use advanced information technologies to achieve simultaneously high-tech, high-touch operations. The spread of the Internet of Things (IoT) will facilitate inter-device, device-to-people and people-to-people communication, breaking down traditional barriers between manufacturing, distribution and service industries.

## The explosion of e-commerce in emerging countries

Ensuring Future Growth in Rapidly Changing Markets and  
a Dramatically Changing World

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We can see these trends already taking hold for instance in the explosive development of e-commerce in emerging countries. China is the world's largest e-commerce giant, with internet penetration soaring from 34.3% of the population in 2010 to 51.7% in June 2016. E-commerce sales have grown in line with the spread of the internet from 500 billion yuan in 2010 to 5 trillion yuan in 2016. That's a tenfold expansion in five years. E-commerce is also growing sharply in some other emerging countries as well, and fueling dramatic changes in retail industries in the world's most rapid growth centers.

Take India for example, where e-commerce has expanded by an average 68% each year between 2013 and 2015. That's more than four times the global average of 16% annual growth. We expect e-commerce in India will expand from approximately 13 billion US dollars in 2015 to 80 billion dollars in 2020.

The Indonesian government released an economic policy in November 2016 that targets the development of e-commerce as a national priority. At the time, President Joko Widodo declared the government's aim to help expand e-commerce to 130 billion US dollars (approximately 13.87 trillion yen) by 2020.

# Revolutionizing our supply chain

Ensuring Future Growth in Rapidly Changing Markets and  
a Dramatically Changing World

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I believe the concept of the supply chain needs to be radically reviewed if it is to respond effectively to today's dramatically changing world.

The spread of the Internet of Things not only affects the manufacturing industry, but all other industries as well. Using IC tags to identify products enables operators to trace and manage each and every individual item across all points in the supply chain from manufacture through distribution, and sale to the customer. Factories are rapidly automating procedures from materials processing through cutting, sewing and dyeing.

We are able to share information on sales volume for each product across the company in real time. We are working to dramatically improve the accuracy of our sales predictions so we can predict exactly what product is likely to sell in which store in the next 24 hours. New advanced supply-chain systems will also directly channel information from customers into product planning and production. As you can see, all processes along the supply chain are undergoing sweeping change.

# Full-scale globalization and digitalization is now underway

Ensuring Future Growth in Rapidly Changing Markets and a Dramatically Changing World

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In today's digitally connected world, there is no turning back.

Our modern era gives us the freedom to decide where we want to locate ourselves and our business, and where we want to design, manufacture and sell our products.

I want Fast Retailing to embrace this new environment, becoming a company that is able to attract the world-class global talent and harness priceless diversity in order to create the best products and a product mix that can satisfy differing customer needs in individual communities, countries and regions across the globe.

We view these significant global changes as a huge business opportunity, and we are determined to actively embrace and implement changes of our own to ensure an effective future for our business, our industry and our customers. Revolutionizing our business is certainly an ongoing process but I would like to explain how we are going about it and how far we have got so far.

## **UNIQLO wins strong customer loyalty across the globe**

**Ensuring Future Growth in Rapidly Changing Markets and  
a Dramatically Changing World**

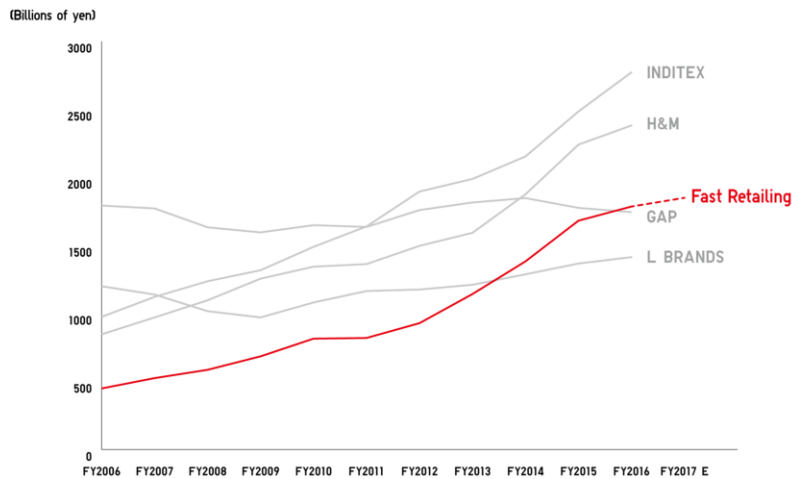
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The UNIQLO brand continues to earn the strong respect and loyalty of customers across the globe. UNIQLO was named the No.1 brand in Hong Kong, Malaysia, Singapore and Thailand in the 2016 Brand Advocacy Rankings, compiled by the international internet-based market research firm YouGov.

In addition, the China Weekly Internet magazine ranked Fast Retailing No.1 for the second consecutive year in its 2016 annual Well-Known Brand Digital Marketing Value Ranking.

Our brand visibility and brand value is also increasing in the United States and Europe as well.

## Sales of Major Global SPA Retailers



Compiled from data disclosed in individual annual reports  
Calculated using Feb 28, 2017 exchange rates. 1USD = ¥112.4 1EUR = ¥118.9 1SEK = ¥12.4

As you can see from this graph, Fast Retailing has developed into the world's third largest SPA (specialty retailer of private-label apparel) in terms of sales.



**Fearless companywide makeover  
full-scale Ariake project launch**

**Fundamental supply chain transformation**

**Ensuring Future Growth in Rapidly Changing Markets and  
a Dramatically Changing World**

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We launched a fully operational Ariake Office in February 2017, which we call UNIQLO CITY TOKYO. I want to create a new global headquarters here that attracts people and information from all over the world.

We are pursuing a fearless transformation of our company to enable us to respond more effectively to dramatic global change. We are looking to create companywide teams that enable people to communicate directly with each other, unfettered by corporate rank, so we can react, decide and implement changes swiftly and effectively and keep up with constantly changing conditions.

We are employing advanced AI and IoT technologies to facilitate direct, two-way communication with customers. We use that information to swiftly plan and design the products that customers in different parts of the world really want, and then rapidly produce those products for direct delivery to customers through our own distribution network. We want to ensure that all work across the company is conducted in a synchronized and concurrent manner, and that all of our processes, systems and decisions are truly customer centric.

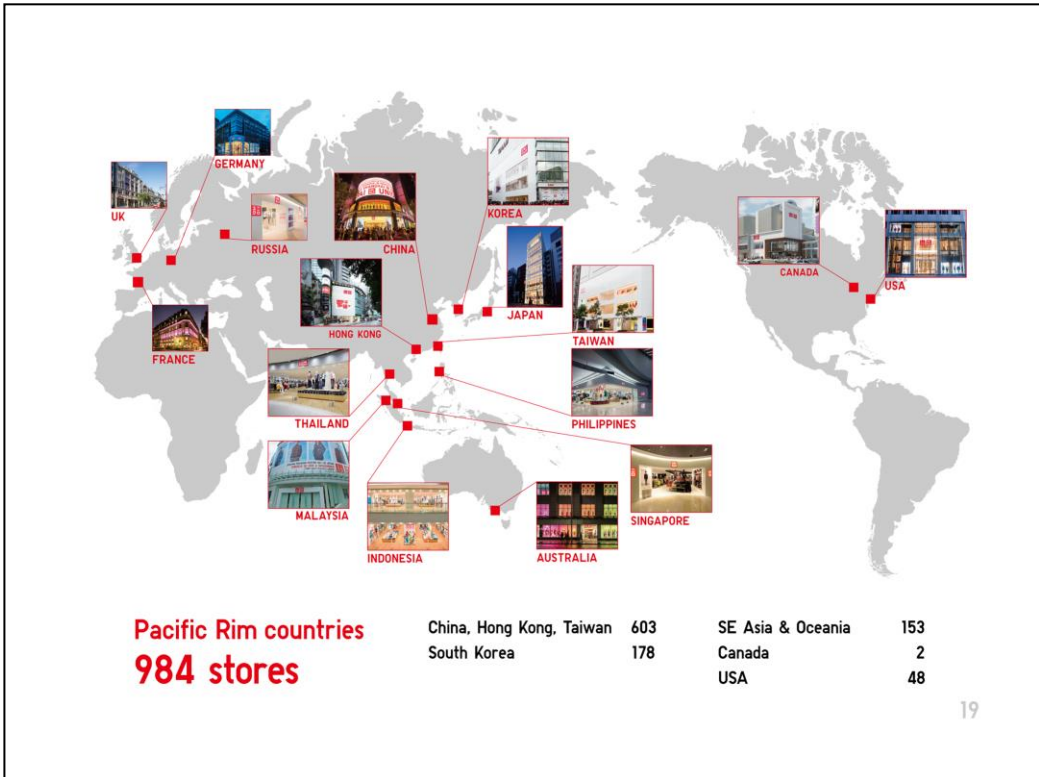
**Consolidate a solid platform in  
buoyant Pacific Rim countries**

**Four billion future  
middle-income consumers worldwide**

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The world's middle-income population is expanding rapidly. Between one third and one half of Asia's four billion people will likely move into the middle-income bracket in the not too distant future. When you add 1.5 to 2.0 billion people in Asia, 800 million people in Europe, 400 million people in the United States and others elsewhere, that equates to 4 billion middle-income consumers worldwide.



Among those regions, the Pacific Rim region is likely to prove the biggest center of growth and offer the greatest business potential. To ensure we make the most of this opportunity, I want to ensure we have a solid operational platform in the Pacific Rim region because we believe this will be a huge asset for us going forward.

As an example, GU recently opened its first two stores in Hong Kong. Both stores were greeted with a stronger-than-expected reception, and are generating buoyant sales.

## **R&D centers in six global locations**

### **Diverse product development to suit diverse needs**

**Ensuring Future Growth in Rapidly Changing Markets and  
a Dramatically Changing World**

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We are aiming to expand and enhance our R&D centers to ensure we continue to create world-class products.

I want to ensure our R&D centers in Tokyo, New York, London, Paris, Shanghai and Los Angeles operate at their full potential so they can attract talented personal from around the world and create a diverse range of uniquely individual clothes.

A primary example is the new Uniqlo U line created by the new artistic director of the Paris R&D center Christophe Lemaire and his team. Christophe Lemaire brought his former experience at Lacoste and Hermes to his new position. The Uniqlo U line demonstrates the kind of business and products UNIQLO is looking to develop going forward.

The hugely popular Peanuts comic featuring Snoopy the dog has made its debut on the UNIQLO UT T-shirt brand at the hand of renowned pop artist KAWS.

Our HANA TAJIMA FOR UNIQLO line of comfort wear inspired by traditional Islamic clothing is also being well received in many different regions.

We are also planning a 2017 Fall Winter collaborative collection with one of today's most talented designers J.W. Anderson, offering a delightful mix of British heritage and progressive modernity.

Our Mickey Blue range currently in stores is the result of our jeans and casualwear development project in Los Angeles, inspired by Disney's Mickey Mouse, US West Coast Jeans and Japanese indigo dyeing.



LifeWear

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I want to create ultimate UNIQLO LifeWear hand in hand with our customers. I have always believed that clothes do not give a person individuality because individuality is generated by the wearer. LifeWear is all about offering clothing that suit the values of the wearer, not the creator. I firmly believe our clothes serve as parts that each and every customer can use to give form to his/her individual style. I am passionate about promoting direct communication with individual customers, and using their opinions to further progress and perfect our LifeWear clothing ranges.

## **Koten-keiei**

### **From a chain store to a group of vibrant individual stores**

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The pursuit of perfect LifeWear is underpinned by our koten-keiei management structure. Under this structure, each individual store is responsible for its own vibrant local management. I want to encourage all staff to adopt a managerial mindset so we can foster a strong group of locally managed individual stores. Individual stores that then can concentrate on developing local community links wherever they are located in the world, and becoming a valued and necessary part of local customers' lives.

For instance, by focusing on developing the key fundamentals for any store such as kind customer service, clean shop floors and thorough staff training and development, we can help increase profitability and realise independent individual store management. That not helps promote growth for the store but also personal growth for its employees.

I believe this approach to store management will ultimately help boost overall sales and profits.

## **Sustainability is our core business aim**

**All of our actions are driven by  
a determined desire to create  
a sustainable society**

**Ensuring Future Growth in Rapidly Changing Markets and  
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Next, I would like to talk about sustainability.

Fast Retailing does not seek to fulfil its responsibility to society simply because it is the social duty of a company to do so. We conduct our operations and business with the aim of helping to achieve a sustainable society. This kind of approach is essential to any company hoping to grow and flourish in global society, especially in the United States and Europe, where companies that lack a strong sustainability focus would find it very difficult to truly penetrate the market. That is the nature of today's world.

Fast Retailing encourages all staff in all departments to ensure sustainability features strongly in their business decisions, and to assess what contribution a particular job can make to achieving a more sustainable society. At the same time, we are also changing all of our work processes to reflect the need for greater sustainability. I believe pursuing greater sustainability affords us the chance to create fresh value, and is a vital part of the innovative process. Pursuing sustainable business activities helps us uncover great new growth opportunities through the acquisition of fresh knowledge and experience and the application of original and ingenious thinking.

## **Carving an Entirely New Business Model by Commercializing Information**

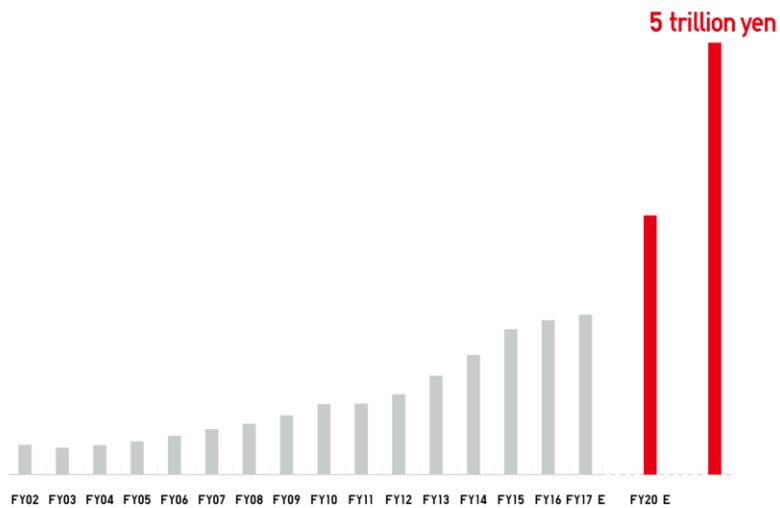
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I am determined to carve an entirely new business model for Fast Retailing based on the commercialization of information.

That is the topic of this final segment of my speech today.



## Fast Retailing Medium-term Targets



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Our target is to become the world's No.1 digital consumer retailing company.

## **Worldwide change inspired by globalization and digitalization harbors huge business opportunity**

**Carving an Entirely New Business Model by Commercializing Information**

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As history repeatedly shows us, those who have change imposed upon them often perish. That holds true whether you are an individual or a company. Rather than wait for change, it is important to actively change yourself and instigate change in those around you. We have chosen to embrace new technology to revolutionize our core organization.

Transforming ourselves into a digital consumer retailing company is our proactive approach to today's evolving times.

# **All industries will eventually move to the information–commercialization business model**

**Carving an Entirely New Business Model by Commercializing Information**

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For us, becoming a digital consumer retailing company is all about: building a network of individually managed stores with strong community roots; collecting valuable global information and honest opinions from customers all over the world; planning, producing, distributing and retailing products that fully satisfy and often exceed customer expectations; and delivering those products along with pertinent fashion information to customers.

# Becoming a digital consumer retailing company

Carving an Entirely New Business Model by Commercializing Information

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Individual customers in individual countries and regions around the world all have their own unique way of life, culture and history. Lifestyles can change from moment to moment. Digitalization is designed to respond to change, the moment it occurs. It is my heartfelt aim to transform Fast Retailing into a completely new digital consumer retailing company, a company that communicates directly with its customers and instantly incorporates customer opinion in its product development and product range.

**Changing clothes.  
Changing conventional wisdom.  
Change the world.**



Changing clothes. Changing conventional wisdom. Change the world.  
This corporate statement inspires and governs everything we do.

We believe businesses exist to help enrich their customers' lives. We must never lose sight of that aim, as we continue to strive to make the world a better place through the power of clothes. I ask for the continued support of all of our stakeholders in the quest.

Thank you.