

Analysts' Meeting Q&A

Business Results for FY2017 (September 2016 to August 2017)

Below are questions from our analyst's meeting concerning business results for FY2017, or the twelve months through August 31, 2017. The answers have been edited to keep them short and clear.

Q1: Can you update us on the latest situation at the Ariake warehouse? Can you also give us more details on the improvements you say you had made to distribution systems in Asia?

A1: Tadashi Yanai, Chairman, President and CEO – Naturally, as the exclusive distributor of online purchases, we are keen to get the Ariake warehouse fully operational as soon as possible. That dedicated e-commerce operation is proceeding favorably.

A1: Taku Morikawa, Group Executive Vice President – In terms of distribution in Asia, in the past, we had some issues with tariffs when transporting goods from China. Also, transporting products around Southeast Asian countries, many of which are islands, took time and was inefficient. To resolve these issues, we decided not to rely on one distribution company but to negotiate with several local distribution companies to create an efficient logistics system. In addition, some countries required more import-related documentation than others which took time. We have a joint venture company with Mitsubishi Corporation that can help, but we also enlisted the support of local joint-venture partners to help change our systems, and reduce lead times and costs. We were also able to cut costs by reviewing delivery systems, reviewing the number of trucks used, and bringing deliveries more in line with individual store sales.

Q2: Operating losses at UNIQLO USA were halved in FY2017. Is this due to cost-cutting or have improved product mixes greatly enhanced performance? Do you intend to expand the business going forward by opening more stores in the North American region?

A2: CEO Yanai – Increased sales at existing stores have resulted in reduced operating losses at UNIQLO USA. The UNIQLO brand has started to permeate the market, and individual stores are becoming more adept at implementing SKU management. The operation's overall management system has also improved. Senior management has adjusted its management style by getting more involved in on-the-ground operations at individual stores and working together with instore staff. In future, I expect our future strategy to move towards opening multiple stores in all major cities across the USA.

Q3: Does that mean that the improvement in UNIQLO USA performance is proceeding to plan?

A3: CEO Yanai – You should interpret it as having moved from a “crisis situation” to a “poor situation.” In the current financial year, we are working to turn this poor situation into a good situation. The morale and motivation of staff is now much higher so I believe performance will improve further.

Q4: This is a question about UNIQLO Greater China. E-commerce is developing at lightning speed in the Chinese market but how is UNIQLO's e-commerce operation faring there?

A4: Ning Pan, Group Executive Vice President – Our e-commerce operation in China is doing extremely well. This is partly due to the contribution from our strategic partner, Alibaba. However, the fact that we are both leading companies in our own fields means that we can cooperate together to create an exciting stream of new purchasing experiences for our customers. The expansion of e-commerce is helping to spread awareness of the UNIQLO brand, which, in turn, is leading to higher sales and profits.

As I explained in my earlier presentation, UNIQLO is exploiting the latest technologies to give customers some different purchasing experiences. For instance, customers are given the option of picking up their online purchases from a nearby UNIQLO store. They can also reserve an item in a store, or have a product delivered from a store to their home. These services not only help expand e-commerce sales but also encourage customers to visit our stores.

In China, November 11 is known as Double Eleven or Singles Day. E-commerce is widely promoted on that day. In 2016, UNIQLO drew much attention as the first brand that year to see its sales top 100 million Yuan on Double Eleven day. It took just 2 minutes and 53 seconds. I think that's good proof of just how much customers love UNIQLO products.

Q5: You said that the UNIQLO Southeast Asia is now on course for solid growth, but what issues do you expect to have to tackle as you expand the operation further? For example, how are you planning to train human resources in the region?

A5: Group EVP Morikawa – The first issue we will have to deal with involves new store openings. Each country has its own difficulties with regards to new store openings, so it won't be easy. Southeast Asia is a diverse region. Each country has its own distinct historical and cultural background. To be successful, the first thing we have to do is to ensure we fully understand each individual nation's unique attributes. It is important to first gain a proper understanding of the countries and then seek to build a business based on that understanding. Having said that, the Southeast Asian climate for instance is similar throughout the region so we need some broader regionwide business frameworks as well.

In terms of nurturing human resources, we use the same system as in China. Like Ning Pan in China, I hold sessions with individual employees to explain our corporate philosophy and business methods. It is also important to develop direct lines between senior managers and stores. We visit stores to talk directly to store managers about the issues they are facing, and consider together how to resolve those issues, and incorporate pertinent ideas into company processes. That's the best form of training.

Q6: Can you update us on progress with the Ariake Project, and explain any issues you are facing right now?

A6: CEO Yanai – I think it is finally starting to take shape. To mold the current operation into the

ideal form, we have to let the operation find its feet and gradually make changes along the way. We make sure to link all on-the-ground operations around the world with the head office, so we can work together. In the virtual world, that means communicating digitally. When I say on-the-ground operations, I am not just referring to our stores, but also to communicating digitally with all of our product planning locations, manufacturing plants, and distribution operations to ensure we work together effectively. That will enable us to clearly grasp what products best fulfill customer desires, and to improve and enhance operations on a daily basis.

I talked earlier about making, transporting and selling only what is necessary. That means switching from shotgun commerce to rifle commerce. We have already made organizational changes, and now finally the Ariake Project is underway. It will probably take several years to perfect the model, and, in some respects, it will be an ongoing task.

Q7: In FY2018, capital investment in systems, etc. is predicted to double. Can you explain the background to this increased systems investment, and whether it will be for one year only or continue for several years?

A7: Takeshi Okazaki, Executive Group Vice President & CFO – This increase in systems investment is directly related to the Ariake Project, i.e. the acceleration of deep-rooted supply chain reform, and the necessary renewal of systems to keep up with our global development. We are planning to invest more funds in systems for those very reasons. This aggressive strategy involves determinedly scrapping old systems and rapidly replacing them with newer, more appropriate systems. We will not be able to complete this process within the current financial term, and intend to press ahead with this strategy for the foreseeable future.

Q8: You included some five-year targets in your presentations on Greater China and Southeast Asia, but can you tell us how realistic these targets are for both sales and profit?

A8: Group EVP Pan – Greater China has experienced much softer growth over the past two years but within that period we have been actively creating the firm platform required to support rapid future growth. This strategy has not among President Yanai and global senior management alone, but has permeated our entire staff. We have been implementing improvements in a variety of different business spheres in the spirit of Global One and Zen-in Keiei, in which we adopt the best Group company practices and use the best available method to create the best organizational structures. This revolutionary action has helped Greater China achieve a record performance in FY2017, which will enable us to press ahead with further expansion going forward. I intend to work with our 25,000 employees in Greater China to challenge and achieve those overall five-year targets.

A8: Group EVP Morikawa – Our target for the Southeast Asia & Oceania region is to treble sales to 300 billion yen within five years but, to be entirely honest, I want to aim for an even higher level than that because I believe we can achieve it. There is much to do before then, and much that needs to be improved and put in place. We need to reform our methods of doing business and press ahead with the reform of business cost structures that I mentioned earlier. We have trained

many local talented personnel, but they still have some way to go before they can operate as top-class managers. If they can develop and learn to promote business themselves, then we have a great opportunity to expand operations in the region. In addition, our e-commerce operation in Singapore, Malaysia and Thailand is still small in terms of sales so there is plenty of potential for future expansion. If we manage operations firmly and skillfully, I am confident that we will be able to achieve sales of at least 300 billion yen in Southeast Asia & Oceania five years from now.