

April 11, 2024

Fast Retailing Co., Ltd.

Q&A Session on Business Results for Fiscal 2024 First Half (September to February 2023)

Below are questions from our analysts' meeting concerning business results for the first half of FY2024, or the six months to February 29, 2024. The answers have been edited for clarity.

Q: What kind of store opening strategy would you need to pursue if you were aiming to achieve sales of say 1 trillion yen at UNIQLO Europe?

Taku Morikawa, Group Senior Executive Officer, Fast Retailing/President, UNIQLO Europe: I think 1 trillion yen sales is certainly achievable. Sales per store are extremely large in Europe and the products that sell best vary depending on the country or city in which a store is located. We haven't yet achieved full local store management in the true sense of the term so there is still great potential for further sales growth. We can achieve even higher sales per store going forward by creating stores with large sales floors that can withstand and support that kind of sales growth. Let me also say that the quality of stores is even more important than the number of stores. The quickest way to boost sales is to open well-located stores that embody the UNIQLO brand. Having gained over 10 years of sales experience in Japan and witnessed growth patterns in other countries, I believe that sales will always boom at a certain point in time. What will matter most when that time comes is not only the number of stores we have, but also how well we have earned the trust of our customers, how comfortable they feel with our brand, and how much trust they have in us. I want to continue to refine our current business so we are fully prepared for when that time comes.

Q: UNIQLO Europe is attracting more female customers and customers under the age of 30. Are you noticing a similar trend in North America?

Senior Executive Officer Morikawa: In fiscal 2019, women's wear accounted for 45%, or under half, of total sales. Europe boasts a large women's apparel market so we have set clear targets and strengthened the way we approach young customers and female customers. These efforts helped increase the proportion of women's clothing sales to 52% in fiscal 2023.

Takeshi Okazaki, Group Senior Executive Officer & CFO: The basic structure underpinning the strong performances in Europe and North America are similar. Our Round Mini Shoulder Bag became a big hit in Europe, which attracted more young and female customers, who then became loyal repeat customers. In North America, we have seen an increase in new customers of all ages rather than specific age groups over the past few years, and the ratio of repeat customers has risen across the board.

Q: One policy focus for the second half of fiscal 2024 is to establish product lineups that align closely with the daily lives of customers in a particular country or region. Are you having any success with that strategy so far?

CFO Okazaki: We realized that our product lineup in Southeast Asia for the first half of fiscal 2024 was too heavily biased toward Fall Winter ranges. We intend to rectify this issue by enhancing the development of year-round products and Summer items for the first half of fiscal 2025 that customers can enjoy during the region's eternal summer. Outside Southeast Asia, many countries are tending to experience warmer winter weather, so, in the second half of fiscal 2024, we think there will be room to introduce fresh, newsworthy Summer ranges in the latter part of the season. Elsewhere, we have started to review our product mix in Japan after warm winter weather stifled sales in December 2023 by, for instance, increasing the proportion of outerwear, which is generally be worn for a comparatively long period of time. We expect the positive impact of these measures will start to show through in the first half of fiscal 2025.

Q: You have reduced your forecast for fiscal 2024 new store openings in the Greater China region from the previous estimate of 80 stores issued in January 11 to 55 stores in the latest April 11 estimate. Have you adjusted the number of stores that are subject to your scrap and build policy in Mainland China, or the amount of time you expect that to take?

CFO Okazaki: We expect our current concentrated scrap activities will take roughly three years to complete. We intend to focus more closely on the quality of new store openings in the second half and that is why the number of new store openings has decreased temporarily. Since we will be scrapping a concentrated number of stores over the next three years, the net rise in store numbers might look smaller, but that does not mean we have changed our targeted store-opening horizon. As our recent success in Europe illustrates, the quality of our stores is extremely important. I want to increase the net size of our network, while also improving the quality of any new stores that we open.

Q: You have amassed considerable cash reserves. What is your view on future investments and returns?

CFO Okazaki: If we are looking to achieve sales of 5 trillion and then 10 trillion yen going forward, I think we have to take risks, while maintaining a dividend payout ratio of roughly 33% and paying solid and consistent returns to our shareholders. Going forward, we will also need to continue to invest in business systems by, for example, strengthening our organizational capabilities across our supply chain and in the IT and digital fields. We will prioritize these investment and focus on creating a solid growth path.

After that, if we have funds to spare, we will consider returning more of those funds to our shareholders through various different means. Naturally, it is our responsibility to generate a return on equity (ROE) that far exceeds the cost of capital, and thus increase corporate value.

Q: Where does M&A feature in your growth strategy?

Tadashi Yanai, Chairman, President and CEO, Fast Retailing Co., Ltd.: I am glad that we acquired the companies that we did in the past because those acquisitions enabled us to penetrate the business environment more deeply in certain countries, which is helping fuel UNIQLO International growth.

Q: Was your sluggish first-half performance in the Mainland China market primarily due to external factors?

CFO Okazaki: I think the reasons behind the sluggish first-half performance in Mainland China were 50% external and 50% internal. There are plenty of things that we can improve internally. The Mainland China market is extremely large and there are many points to reflect upon, such as, have we been able to build a product mix that really suits the specific needs and characteristics of each individual region, have we enhanced our branding by opening stores that can serve as flagship stores in each region, and have we established a sufficient level of local store management. Our strength lies in our commitment to uphold the trust of our customers by ensuring they can always buy what they want when they come to our stores without experiencing any product shortages. However, there is still room to improve our performance even on product shortages in the Mainland China market. In terms of the broader market environment, while demand did boom during specific sales periods, generally speaking customers' are keeping a tight rein on their purse strings. In such an environment the important thing is to ensure we remain the consumers' brand of choice. I think we will be able to meet the expectations of our customers if we implement the strategies mentioned here today.

Q: Based on your actual experience, are there any unique Fast Retailing factors that help successfully nurture local staff?

Nicolina Johnston, COO, Sweden & Denmark, UNIQLO EUROPE LIMITED: Yes, there are three main factors. The first is Fast Retailing's unique corporate philosophy. The most common reasons why people want to join UNIQLO is because they are really impressed by what we are doing, they think our products are wonderful, or they empathize with what we are trying to do. Our corporate philosophy attracts great talent. The second factor is that each and every member of our store teams adopts a true managerial mindset in their daily work activities. This really is a unique quality. Every day, I ask our store managers and staff specific questions about what they think will sell, how they want to sell things, what colors they

think will sell best, how many clothes they will sell, and how they should present their products. We encourage this practice as part of our quest to encourage local store management, but reflecting the opinions of each and every store manager and employee in the way you do business is truly unique and sets UNIQLO apart from other companies. The third factor is our unique staff training and advancement systems. For example, in Scandinavia, employees get a chance at promotion once every three months. I am not exaggerating when I say that we give every possible opportunity to people who share our company values and really want to succeed. These are the unique factors that, I believe, help generate a positive cycle for attracting and nurturing outstanding human talent.

Q: How successful have you been at conveying these great points about UNIQLO to European customers? Is there any room for improvement and, if so, where?

Sweden & Denmark COO Johnston: The only way for customers to truly understand and believe in the value of our brand is to experience our products firsthand. Our job is to focus on increasing new customer visits. The number of new customers are rising in this current period of business expansion, and I see that as a great opportunity. In his publications, Mr. Yanai writes that, “LifeWear only becomes LifeWear when customers choose to wear it.” Based on that thought, the most important thing for us to do is to ensure we appropriately prepare and offer the products that customers really do want. We must ask ourselves if we really understand the needs of local customers and if our product lineups align with customers’ lifestyle needs. In this area, as with local store management, we are always learning, but I think it is fundamentally important to repeat this process over and over again to improve accuracy, and to shorten the distance between ourselves and our customers.

Q: What were the specific reasons for your sluggish sales performance in the Greater China region in January and February?

CFO Okazaki: Weather patterns were one factor that weighed on sales in January and February. The weather was extremely volatile in January, which made business very tough during that month. Our business responds to actual demand, so it was hard to successfully launch Spring ranges with temperatures fluctuating wildly over a short period of time. In fact, the weather was so changeable that customers were confused as to whether they should be buying Spring or Winter ranges. While performance recovered during the Lunar New Year festivities in February, sales were not as good as we had expected them to be over the January-February period as a whole. Sales have recovered since the temperature started to rise, so it is not as if we are facing any severe structural problems. However, consumers are tightening their belts, so we will continue to work hard to ensure we remain our customers’ brand of choice.