

GU Growth Strategy

Osamu Yunoki
G.U. Co., Ltd.
Chief Executive Officer

I am Osamu Yunoki, Chief Executive Officer of GU Company Limited. I would like to talk to you briefly today about our future growth strategy for GU, and how we envisage the company developing going forward.



**“More freedom
with fashion”**

“More freedom with fashion.”

That is what GU is all about.

This brand message or, more significantly, this customer pledge represents our commitment to offer all kinds of people the opportunity to really enjoy fun fashion.

2006 (Oct. 13)	First GU store (Minami-gyotoku, Chiba)
2009 (Mar.)	¥990 jeans hit product
2010 (Apr.)	First GU online store
2010 (Oct.)	First GU flagship store (Shinsaibashi)
2011	Determined shift to “fashion” focus
2012 (Mar.)	Open GU Ginza store
2013 (Sep.)	First international store (Shanghai)
2014 (Aug.)	Annual sales top ¥100 billion
2014 (Sep.)	First GU store in Taiwan
2015 (Spring)	Gaicho pants hit product
2016 (Mar.)	Establish R&D center in London
2016 (Spring)	Skants hit product
2016 (Oct. 13)	GU celebrates its 10th anniversary



How do we do that? On this occasion of GU's 10th anniversary, I'd like to take a brief look back at our 10-year record to date.

Exactly ten years ago today, on October 13, 2006, we opened the first GU store in Chiba Prefecture.

We enjoyed our first hit product with our ¥990 jeans in March 2009.

Then in 2011, we made the decision to shift the brand's focus to offering more latest fashion trends.

With the brand developing nicely in Japan, we were able to open our first GU store outside of Japan in Shanghai in September 2013.

In fiscal 2014, GU's annual sales topped ¥100 billion for the first time.

Now, here we are today celebrating GU's 10th anniversary.



Where do we go from here? We have set ourselves the challenging target of growing GU into a 1 trillion yen.

We have a considerable way to go but the momentum is definitely already there, with the brand generating gains of over 30% for both revenue and profit in the year to August 2016.

In fiscal 2016, revenue expanded 32.7% to ¥187.8 billion, operating profit increased by a handsome 34.8% to ¥22.2 billion and the operating profit margin expanded to 11.8%.

Completely refashion the brand and corporate structure over the next 10 years to create a 1 trillion yen company



Looking ahead, we intend to completely refashion the GU brand and corporate structure over the next 10 years to create a 1 trillion yen company.

GU has been extremely fortunate in its first ten years of operation. We have been able to leverage existing Fast Retailing infrastructure and exploit promising gaps in the market to secure extremely favorable growth.

We expanded the GU brand over the past 10 years by astutely nurturing latent customer demand. There was a clear market opening for fast fashion in Japan, but the playing field was completely empty. We entered the field as Japan's first fast fashion brand. We had to experiment along the way, but we carved a budding fast fashion market in Japan, and today we operate a successful and vibrant fast fashion brand.

With annual sales of over ¥180 billion, we believe GU has established a certain brand positioning in Japan. Any regular company would probably focus on maintaining that position, and be satisfied with maximum potential annual sales of approximately ¥200 or ¥300 billion.

Our goal to build GU into a 1 trillion yen company represents both a commitment and a public declaration that we are not satisfied with being a regular company.

Instead, we intend to refashion every part of our operation, from brand positioning to our business model, our staffing framework, and the way we work and operate.

We are confident we will achieve that target of 1 trillion yen sales. We plan to do it by carving completely new market demand; surprising customers with the exciting and unique nature of the GU fashion brand, and introducing customers to new ways of having fun with fashion.

1. Create a national fashion brand by offering latest real fashion

- London & Tokyo R&D centers to work together to seize accurate info on fashion trends and swiftly transform into latest fashion items that meet customers' real needs and desires
- Expand women's, men's, kids', sports' and goods ranges to capture a broader customer base and boost average customer spend
- Offer the absolute lowest price through agile production adjustment and materials procurement
- **Convince everyone that fashion=GU!**



Let me now give you some concrete detail about our future growth strategy for GU.

Our first goal is to create a “national fashion brand” by offering an extensive range of latest real fashion to a broad range of customers.

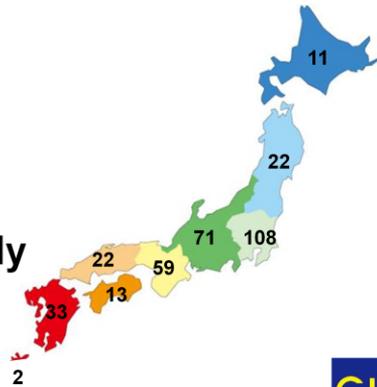
Our London & Tokyo R&D centers work together to seize accurate information on fashion trends that can be actively and swiftly transformed into latest fashion items which meet customers' real needs and desires. We are looking to expand our womenswear and develop more extensive ranges for men and children, along with sportswear and other goods to help capture a broader customer base and boost average customer spend. The GU brand is all about low-priced fashion fun, so we pursue increasingly agile production adjustment options and raw materials procurement to ensure we offer the absolutely lowest prices. Through all these avenues, we seek to convince that GU is fashion, and fashion is GU.

Many people fear that fashion stops being fashionable when lots of people wear it. We don't believe that and are dedicated to creating a “national fashion brand.”

2. Rapid store expansion, high growth and profitability in Japan

- Open 40~50 stores annually
- Maximize store location and efficiency through scrap and build policy
- Expand product range and strengthen branding by actively opening large-format stores
- Efficient store operations

GU stores in Japan
(At end Sep. 2016)



Our second growth strategy is to rapidly expand our store network to secure a high level of GU growth and profitability in Japan.

There are still many attractive potential new store locations in Japan. We are pressing ahead with plans to open between 40 and 50 new GU stores each year. We are also working to secure prime store locations and optimize store efficiency through our “scrap and build” policy of replacing smaller, less efficient stores with larger ones. By actively opening large-format stores, we can expand our product range and strengthen the GU brand. We can also boost profitability by pursuing more efficient store operations.

3. Pursue digital marketing, expand e-commerce operations

- **Strengthen customer links through digital marketing**
 - Increase number of GU digital members
 - Offer personalized information and services
 - Strengthen two-way customer communication
- **Greatly enhance online shopping convenience**
 - Strengthen content of online shop website/apps
 - Improve delivery and payment services
 - Expand online product range
- **E-commerce from 5% to 30% sales medium term**



Our third growth strategy involves expanding our digital marketing and e-commerce operation.

In today's era, much digital marketing is targeted at smartphone users, and we will be looking to strengthen our expertise in this area.

That means increasing the number of GU Digital Members even further. Many of our customers are already Digital Members, but we want to reach a point where we can communicate digitally with every potential customer across Japan. We also want to be able to offer personalized information and services to individual customers, and strengthen two-way customer communication.

Incorporating ideas offered by customers is a great way to develop good products and good business, and build a community of customers who can share and benefit from ideas.

We are looking to strengthen our website and online applications to make online shopping more convenient. We are improving our delivery and payment services to make GU online shopping as easy and stress free as purchasing clothes in our physical stores. We are also expanding our online product range.

These efforts are designed to help boost online sales from the current 5% of total sales to 30% of total sales over the medium term.

4. Expand international operations

- **2013 international launch**
Amassing international expertise with 11 stores in China & Taiwan, plus e-commerce operation
- **Improve manager, staff training**
- **More effective marketing to boost global branding**
- **Expand scope of international store openings**
- **3-year target: Approx. 50 intl. stores, 10% of revenue**



341 GU stores in Japan
7 GU stores in Taiwan
4 GU stores in Shanghai
(At end September 2016)



Our fourth growth strategy focuses on expanding GU international operations.

We opened our first GU store outside Japan in 2013. Now, we have a total of 11 GU stores and an online operation in China and Taiwan, which are helping us acquire international expertise.

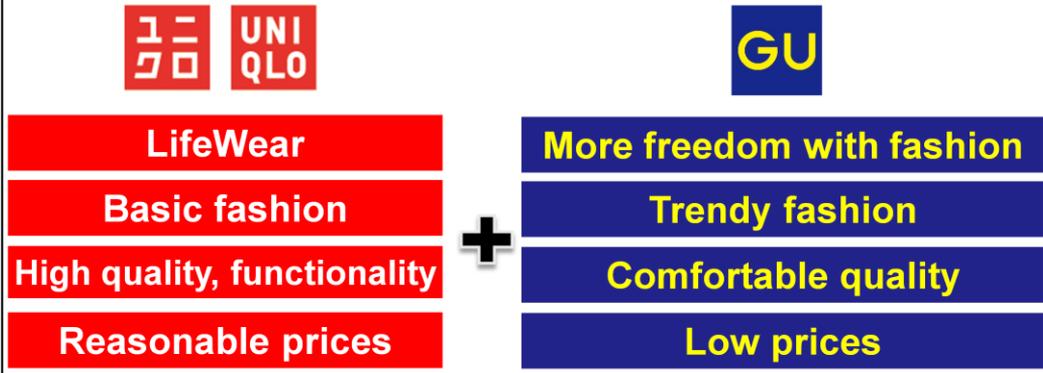
Inside or outside Japan, we believe human resources are the key to successful business expansion, so we are concentrating on improving training opportunities for managers and employees.

We are also developing more effective marketing to help boost GU branding on a global scale.

We intend to focus on expanding store numbers initially in China and Taiwan before exploring new international markets.

In terms of concrete targets, our aim is to expand GU's international network to approximately 50 stores, constituting 10% of total revenue, within three years.

GU and UNIQLO to become world No.1 brands together by maximising synergies



Finally, let me talk about GU's position within the Fast Retailing Group. GU is now recognized as the Group's second pillar brand alongside UNIQLO. That means we do not intend to compete with UNIQLO but to work side by side to maximize potential synergies and become world No.1 brands together.

In Japan, UNIQLO and GU often open adjacent stores. This strategy has proved extremely effective in terms of boosting sales for both brands and generating useful synergies. We plan to extend this UNIQLO GU adjacent store-location model going forward.

This slide compares the key strengths of the UNIQLO and GU brands. I believe we can generate more synergies by clearly accentuating each brand's position and comparative strengths. UNIQLO and GU intend to cooperate in their quest to become leading global brands.

That completes my explanation of our future growth strategy for GU.

Thank you.