

Powerful UNIQLO Growth in Greater China

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Good afternoon. My name is Ning Pan, and I am the Group Executive Vice President at Fast Retailing responsible for the Greater China (Mainland China, Hong Kong and Taiwan) region. I would like to take this opportunity to look back over UNIQLO Greater China performance in FY2017, and talk about our future growth strategy.

Record Performance in FY2017

Sales: ¥346.4bIn (+4.1% y/y)

Operating profit: ¥50.1bIn (+37.0%)



UNIQLO Greater China generated a record performance in FY2017, thanks to the tremendous support of our customers.

While FY2017 revenue growth was only a modest 4.1% year on year to 346.4 billion yen, this figure was dampened by adverse foreign exchange rate movements. The Mainland China operation was strongly affected by exchange rate trends in FY2017. However, in renminbi terms, Mainland China actually reported double-digit growth in FY2017 revenue. Meanwhile, UNIQLO Greater China operating profit expanded by 37% to 50.1 billion yen.



Strong FY2017 Performance: Factors

- **UNIQLO branding penetrates the market**
 - Consumers aware of LifeWear concept. Digital marketing very effective.
- **Profitability up on shift away from discounting**
 - Discounting greatly reduced by more precise ordering/sales planning.
 - Generated strong sales and prevented shortages by adjusting product mix to suit different climate conditions within Mainland China.
 - Stronger profit structures for each store through committed *koten-keiei* (local individual store) management. Use Weekly PL Project to uncover and resolve problems in individual stores on a weekly basis.
- **Purchasing Project helps reduce business costs**
 - Purchasing Project helps control each area of costs more effectively.
 - Apply *koten-keiei* principles to control costs at individual store level and almost eradicate most loss-making stores.
 - Review store rent negotiating process to reduce ratio of store rent.
 - Review local distribution networks to boost distribution efficiency.

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I would like to mention three key factors that underpinning UNIQLO Greater China's strong performance in FY2017.

First, UNIQLO branding successfully penetrated the market thanks, in particular, to extremely effective digital marketing. China boasts over 880 million smartphone internet users. In such a market environment, Fast Retailing has worked tirelessly to convey a broad range of information to customers through digital platforms, including Fast Retailing and UNIQLO's corporate stance and management philosophy, what is great about UNIQLO products, and coordinated outfit suggestions. These efforts have helped the UNIQLO LifeWear concept penetrate the market, and earned UNIQLO large numbers of loyal fans.

The second factor is that UNIQLO Greater China's determination to shift away from a discounting-dependent business format has helped improve profitability. We have been able to greatly reduce discounting by improving the accuracy of our ordering and sales planning. At the same time, we have boosted sales and prevented shortages by compiling product ranges to suit differing climates in different parts of Mainland China. We have also worked to strengthen profit structures at individual stores by promoting *koten-keiei*, or individual local store management. Our Weekly PL Project initiative has proved extremely effective, with stores and central management coming together weekly to pinpoint and resolve issues at individual stores.

Third, our Purchasing Project helped control and reduce each business expense item. By controlling business expenses for each store using *koten-keiei* principles, we were able to all but eradicate loss-making existing stores on an annual basis. Rising awareness of the UNIQLO brand in recent years has also attracted requests to open new stores from all over the country. By carefully negotiating each request in turn, we have been able to gradually reduce the store rent ratio. Our determined review of local distribution networks has also helped boost distribution efficiency and reduce overall business costs.

We are looking to use these measures and stronger profit structures to further expand growth over the medium term, concentrating management resources in three major areas to create a solid growth platform, which I will highlight in the next three slides.

Greater China Store Policy

Open 100 stores annually to reach 1,000 stores in FY2021



First, we are continuing to open 100 new stores annually in the Greater China region. In Mainland China in particular, we are maintaining a speedy expansion of the store network by opening new stores in major cities to build a dominant position for the brand, and expanding store numbers in second-tier and third-tier cities.

UNIQLO Greater China boasted 645 stores at the end of August 2017. We intend to expand that total to 1,000 stores by FY2021. While we want to maintain the pace of new store openings, we are also focused on creating profitable, quality stores.



Greater China E-commerce Strategy

Fuse real & virtual stores in Greater China to expand customer base, secure future growth

• Further develop digital marketing

- Reach more young customers through SNS (Wechat, Weibo) and blogs.

Digital Value No.1 for 3 years!

China Internet Weekly magazine announced the top 100 retail brand rankings for 2017. UNIQLO was ranked No.1.

2017快时尚品牌TOP100

排名	品牌	ESL	iBrand	iPower	总分
1	优衣库UNIQLO	98.1	98.7	99.45	98.08
2	耐克	98.6	98.25	98	98.28
3	韩都衣舍	98.3	97.95	98.2	98.15
4	Adidas	98.5	97.88	98	98.13
5	Daniel Wellington	95.23	93.1	97.98	97.08
6	ZARA	94.89	96.65	97.45	96.33
7	Calvin Klein	95.78	95.98	96.93	96.23
8	GAP	95	95.7	97.5	96.07

• Encourage O2O (Online to Offline)

- Link real (stores) and virtual (e-commerce) operations by using online services to encourage customers to visit real stores, and promote sales.
- Examples: Our service for ordering goods online and picking them up from a local store. When consumers come to pick up instore, add info on suggested coordinates, etc. to encourage further purchases.

• Increase EC sales from current 10% to 30% of sales

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Second, we are also developing our Greater China e-commerce strategy, fusing real and virtual worlds to expand our customer base and secure future growth.

We are focused on perfecting our digital marketing. UNIQLO has an extremely strong reputation in the digital field in Mainland China, having been selected as the Digital Value No.1 brand for the past three years in a row.

We are looking to firmly link our real stores and e-commerce virtual operation so we can use online services to attract more customers into our physical stores and promote additional instore sales. For instance, we allow customers to reserve e-commerce sale items in stores at the reduced price, and also offer consumers the option to pick up their online purchases from their nearest UNIQLO store. We use that store-visit opportunity to suggest coordinate items and offer additional information which often increases the number of items purchased.

We intend to use these initiatives to help expand the e-commerce share of total sales from the current level of just over 10% up to 30% within the next three to four years.

Training large numbers of managers to work in China and on the global stage

• Secure talented staff by introducing internships

- Get students to participate in internships, promote them to store manager when they formally join UNIQLO to secure superior potential management personnel early.

• Long-term manager training

- Started thorough training of each individual employee in 2008 by getting managers to proactively participate in monthly seminars on topics such as “FR:IN SPIRIT AND ACTION”, “Notes on Becoming a Business Leader” and the FR WAY management philosophy.



Greater China CEO Ning Pan conducts internal “Notes on becoming a Business Leader” training session

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Our third focus is on nurturing management personnel. We consider this to be the most important area for promoting further growth.

We are keen to train large numbers of managers who can play an active role not just in Greater China but across our global operations. We have introduced an internship system that invites students to work in UNIQLO stores when they are studying at university so they can become store managers as soon as they formally join UNIQLO after graduation.

We also conduct long-term management training. This is something that we first introduced back in 2008 when UNIQLO had only 13 stores in Mainland China. Ever since then, I have personally attended monthly seminars to provide thorough training for individual employees on topics such as “FR: IN SPIRIT AND ACTION”, “Notes on Becoming a Business Leader”, and the FR WAY management philosophy. I intend to keep on doing this.

Greater China Growth Strategy

Five-year target:

Revenue: 1 trillion yen,

operating profit: 200 billion yen

• Sluggish economic conditions in Greater China have resulted in more gradual sales growth over the past two years, but we expect to regain previous momentum and generate strong sales growth from FY2018 onwards.

• Having strengthened profit structures over the past two years, we expect to see considerable expansion in operating profit going forward.



We intend to continue these efforts to create a solid, profitable corporate structure, with the aim of expanding Greater China sales to one trillion yen and operating profit to 200 billion yen within the next five years.

Sluggish overall economic conditions in Greater China over the past two years have resulted in comparatively soft sales growth. However, from FY2018 onwards, we are looking to regain previous momentum and achieve high growth. We have also used those two years to strengthen our profit structure, and we expect these efforts and the above-mentioned sales expansion to generate considerably higher operating profit growth going forward.

UNIQLO is fast becoming
a vital brand
for everyday living
to 1.4 billion customers
in Greater China.

Finally, we will do everything in our power to ensure UNIQLO continues to carve a position as a vital brand for everyday living for 1.4 billion customers in Greater China.

I thank you for following UNIQLO Greater China's exciting success, and ask for your continued support and understanding. Thank you.