

# The UNIQLO North America Operation Moves into a New Expansion Stage

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Good afternoon, everyone. My name is Daisuke Tsukagoshi, and I am a Group Senior Executive Officer at Fast Retailing Co., Ltd.

I would like to thank you for taking time out of your precious schedules to be here today. First, let me briefly introduce myself.

I entered Fast Retailing in 2002 as a new graduate. After working in Japan sales and Fast Retailing's FR-MIC educational institute, I became COO of the UNIQLO operation in China and then, in September 2020, I was assigned to my current position as CEO of UNIQLO USA.

## Expecting First Full-Year Profit

**Moving from a loss-making operation into an accelerated growth phase**

**FY2027 targets: 300 billion yen sales, 20% OPM**

- Revenue, profit expected to rise y/y in FY2022
- Expect to achieve first full-year profit since its creation, and an OPM in excess of 5%

< UNIQLO North America Sales Trends



Since opening our first store in New Jersey in 2005, UNIQLO USA has faced many trials over a long period of time but we have still managed to develop a business in the US market and open stores in new cities.

From March 2020, the United States also experienced lockdowns and multiple other difficulties as the COVID-19 pandemic spread. However, everyone took Fast Retailing's conviction that tough times harbor future opportunities to heart and worked hard to look ahead and develop a business for the future.

In the fiscal year ending August 31, 2022, we expect UNIQLO USA will generate large year-on-year increases in revenue and profit. The operation is expected to break free from its former loss-making structure and turn its first ever full-year profit, and generate an operating profit margin in excess of 5%.

Going forward, we intend to move into a new stage that will focus on accelerating operational growth. We are currently aiming to attain sales of ¥300 billion and an operating profit margin of 20% five years from now in FY2027.



# Instill Our LifeWear Concept (1)

## (1) Focus on branding, product marketing

- Continuously convey what LifeWear is and who we are
- Brand awareness, affinity increased greatly two years running

Uniqlo is inspired by you.

For fifteen years, ever since we opened our first U.S. store, we have looked to you to teach us how to help you live better.

And that's what you do. Day after day, all across this country, people from all walks of life keep showing us why it matters that we put so much care into each of our products. Because clothes create possibilities. Because clothes become feelings. Uniqlo invents warmer socks; you turn them into warmth that brightens a bitterly cold day.  Now, more than ever, these little details count. This has been a difficult year for America. Rarely has it been so hard, so draining, to balance keeping safe with keeping well. And yet, despite everything, despite all the loss and anxiety, fear and unease, that's what you do. Get up, get dressed, take each day as it comes. Stay grounded in small comforts, find new ways to keep going.  LifeWear is the name Uniqlo gives to its commitment to creating the clothes you need: functional, durable, incredibly well-made, affordable. During the pandemic, we have worked hard to put medical masks and gowns in healthcare workers' hands. This too, was LifeWear. And now, as spring approaches, we are looking to the future, imagining a season of starting over. Maybe soon you will be ready to explore our spring/summer collection online, or in a store, where, as always, your health and safety remain our highest priority. We have lots to share.



Taken from the March 28, 2021 printed edition of The New York Times

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Today, I would like to explain four key points that illustrate the factors underpinning our continued strong corporate performance.

The first point is our focus on branding and product marketing.

There are many competitors competing in the US market in close proximity, so we have worked hard to consistently convey information about our LifeWear brand concept. In short, LifeWear is ultimate everyday clothing that seeks to enrich the lives of all people and that is carved and conceived from life's daily needs.

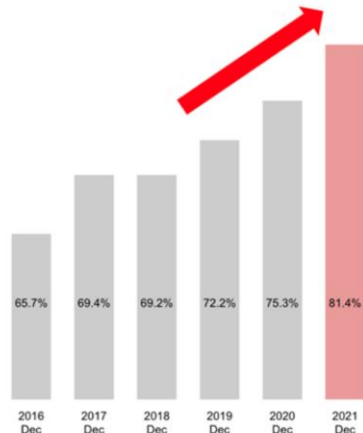
More specifically, we have sought to instill LifeWear into customers' hearts and minds by taking out front-page advertisements in the New York Times, airing commercials on cable TV, and proactively using social media.

In addition, we continue to ask our employees why we exist in this market because we want to ensure all our employees understand the significance of UNIQLO's existence as they go about their daily work and do their very best to provide superior products and services to our customers.

## Instill Our LifeWear Concept (2)

### (1) Focus on branding, product marketing

- Continuously convey what LifeWear is and who we are
- **Brand awareness, affinity rises sharply for two years running**



**Brand awareness**

(Target: New York, Los Angeles, San Francisco, Chicago, Boston) \*In-house survey



- Awareness of the UNIQLO brand has increased sharply in major cities compared to before the Covid pandemic.
- Consumers with a positive image of the brand have also increased **1.7 times** compared to two years ago.
- Increasing particularly strongly in **New York** where we are strengthening activities to mark our 15<sup>th</sup> anniversary.

This graph shows brand awareness trends in major cities.

In each major city, awareness of Fast Retailing and UNIQLO is increasing and affinity for the brands has soared, rising 1.7 times compared to two years ago.

Also, since September 2021, we have been working hard to strengthen our brand marketing to celebrate the 15<sup>th</sup> anniversary since the opening of the New York Soho global flagship store, and we have seen empathy towards the brand increase considerably in New York.

# Develop Strong-selling Products (1)

## (2) Advertise, develop strong-selling global products

- **Appeal the consistent value of essential products**
- Discover, develop, sell products that will sell worldwide based on customer opinion in the N. American market



### • Expanding sales of **essential items**

	v. FY2020	v. FY2021
T-shirts	1.3 times	1.5 times
Fleece	1.3 times	1.8 times
AIRism soft leggings	6.0 times	2.9 times

### • **Strengthen our appeal of product quality via stores and EC**

### • **Expand exposure opportunities by providing samples and explaining products to stylists, writers, and other influential opinion leaders**

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The second point involves our drive to appeal the consistent value of essential products and determinedly promote sales, while also working together as one global entity to develop products based on customer opinion that we know will sell worldwide.

First, we have appealed the value of our range of essential products as clothes that display a sense of beauty and rationality, simplicity and high quality, and ingenious detail.

Indeed, sales of core T-shirts, fleece, AIRism soft leggings, and other products have increased significantly year on year.

We continue to advertise the value of our products, such as their high product quality, through our dual sales channels of physical stores and e-commerce operations. I think we have been able to convey the true value of our products to customers particularly well by piquing the interest of stylists, writers, and other opinion leaders and strengthening our digital marketing in particular.

These efforts have enabled us to move away completely from marketing methods that rely on discounting, which has, in turn, helped expand our sales and profits.



## Develop Strong-selling Products (2)

### (2) Advertise, develop strong-selling global products

- Appeal the consistent value of essential products
- **Discover, develop, sell products that will sell worldwide based on customer opinion in the N. American market**



Cropped T-shirts



Damaged jeans



Loungewear

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In addition to the aggressive selling of essential products, we have concentrated on developing and selling products based on customer opinion in the North American market which we believe will sell worldwide.

The cropped T-shirts, damaged jeans, and loungewear shown on this slide were developed based on North American customer opinion. They have risen to the Top 10 most popular clothing items in the United States and are turning into hit products on a global scale as well.

We also collect feedback on our products every week from store managers who interact with customers on a daily basis, staff, and customers themselves, and reflect that feedback in product improvements.

## (3) Actively participate in community support



Supporting Afghan refugees



Actively participating in community support activities such as street soccer



Conducting greening activities in partnership with local NGOs and public institutions



Support activities after the flood in Queens, New York and hurricane in Texas in Sep. 2021

The third point illustrates our efforts to implement the underlying inspiration of the Fast Retailing Group's Code of Conduct which encourages employees to "act as global citizens with a high sense of ethics."

In addition to nurturing a deep understanding of society and upholding social norms, we aim to act in a way that reflects our role as trusted global citizens who always consider the challenges facing international society and the global environment. We believe one way we can do that is to actively engage in social contribution activities in the local community.

The top left photograph shows a group taking part in an aid project for Afghan refugees. Staff from our UNIQLO headquarters and stores go directly to the refugee support sites and actively engage in the support activities.

In addition to participating enthusiastically in activities to support essential workers, schools, and local communities, our staff have also conducted support activities following the floods in Queens, New York and the hurricane in Texas in September 2021.

I feel that awareness of the UNIQLO brand has increased particularly strongly among young people as these activities have been reported via our own social media channels and picked up by local news outlets.



## Major Overhaul of Operational Structure

### **(4) Create a business that generates consistent profit**

**1H GPM improved by approx. 8 points compared to FY2019,  
SG&A expenses reduced by an impressive approx. 20%,  
profit ratio improved greatly**

- **Improved gross profit margin (GPM)**
  - ✓ Finished offloading unprofitable inventory. Strengthened product orders and sales period management
  - ✓ Minimized lost sales opportunities by transporting additional orders of strong-selling items by air to ensure short lead times
  - ✓ Greatly lowered discounting rate with stronger marketing of product value
- **Improved SG&A ratio**
  - ✓ Seek to swiftly close unprofitable stores and review existing store rents
  - ✓ Personnel costs: Minimized unnecessary processes by ensuring appropriate inventory levels in each store, boosted store efficiency by introducing self checkouts, RFID and other digital measures
  - ✓ Select a few members to execute business, make decisions more efficiently

The fourth point relates to the major transformation of our operational structure that we have undertaken. Our operating profit margin has improved considerably thanks to an approximate 8 points increase in gross profit margin in the first half of FY2022 compared to the first half of FY2019 before the outbreak of COVID-19 and a reduction in SG&A expenses of approximately 20%.

In order to improve our gross profit margin, we worked hard to boost inventory efficiency in particular. More specifically, that meant completing the offloading of unprofitable inventory, strengthening product ordering and sales period management, and minimizing lost sales opportunities by transporting additional orders of strong-selling items by air to shorten lead times.

We have also been able to greatly improve discounting rates by completely moving away from the discounting-reliant business model that we had employed to date and strengthening our marketing to better convey the true value of our products.

In order to improve our SG&A ratio, we reviewed every single cost item and introduced improvements. In particular, we sought to swiftly close unprofitable stores, which had been a clear talking point, and reviewed rents at existing stores.

Our in-store personnel cost ratio is also improving markedly as we seek to raise productivity per person hour in each store. We have been able to minimize unnecessary processes by ensuring appropriate inventory levels in each store and have greatly boosted store efficiency by introducing self checkouts, RFID, and other digital measures.

In addition, we continue to pursue initiatives that focus on consolidating headquarter departments and functions and choosing a few select members to execute business and make decisions more efficiently.

These initiatives have helped us transform our operation into a business that can generate a consistent profit by drastically changing the very structure of the business itself.





# New Aggressive Growth Strategy (1)

## (1) Open 30 stores/year to reach 200 stores in 5 years

- Accelerate opening of new stores in superior shopping malls and global flagship stores on East and West Coasts
- Heighten our presence by opening stores in new cities



We will continue to press ahead with an even more aggressive growth strategy centered around five key axes.

The first axis involves opening 30 new stores each year so that we can achieve a network of 200 stores five years from now.

That will involve accelerating the opening of new stores in superior shopping malls and global flagship stores on the East and West Coasts where we are already developing a network. We also intend to heighten UNIQLO's presence by opening stores in new cities.

### **(2) Achieve true O2O business by fusing EC & stores**

- Build an EC-centric business framework that enables all customers to buy products whenever and whenever they want and create an environment that can provide each customer with personalized products and services

### **(3) Build a framework run by a select few that focuses on teamwork**

- Accelerate the discovery, recruitment, nurturing, and appointment of highly talented human resources, irrespective of ethnicity, nationality, age, or gender, and promote promising young people
- A group with strong teamwork, high aspirations, and passion
- Practice prompt evaluation, determination, and execution, pursue frontline-centric management
- Increase employee empathy and resonance, encourage long-term employment

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For our second axis, we will focus on achieving a true O2O business by fusing our e-commerce and physical store operations. Customer expectations vis-à-vis digital-driven improvements to services have been growing even more rapidly since the outbreak of the COVID-19 pandemic. We intend to make e-commerce our main business and build a business framework that enables all customers to buy their desired products whenever and whenever they want, while also creating an environment that can provide each customer with personalized products and services.

The third axis involves building a framework run by a few selected members that focuses on teamwork. To that aim, we intend to accelerate the discovery, recruitment, nurturing, and appointment of highly talented human resources, irrespective of ethnicity, nationality, age, or gender, promote promising young people, and develop a group that displays strong teamwork, high aspirations, and passion.

In essence, we intend to practice “prompt evaluation, determination, and execution” and pursue “frontline-centric management” to enable us to successfully respond to today’s rapidly changing world. We will also strive to increase employee empathy towards and resonance with Fast Retailing as a company and seek to encourage long-term employment.

## Focal Initiatives Going Forward

### **(4) Further promotion of sustainability activities**

- Form long-term partnerships with companies and organizations who share our aspirations to make the world a better place through business operations
- Become known as a company that proactively pursues sustainability activities and growth in harmony with society

### **(5) Proactively execute certain global HQ functions**

- Strengthen the development and advertising of LifeWear concepts and products from the global fashion centers of NY, LA, Paris, and London
- Establish a position as a respected brand in US and Europe
- Proactively execute the functions of R&D centers, product development, merchandising, marketing, and other departments so we can become the axis of global strategy
- Create a new industry together with the Tokyo HQ that makes the most local assets and incorporates the most advanced IT and logistics technologies

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The fourth axis involves promoting sustainability activities even further to make people more keenly aware of our corporate stance.

We will continue to explore the forming of long-term partnerships and other relationships with companies and organizations who share our aspirations to make the world a better place through business operations.

We also want to become known as a company that proactively pursues sustainability activities, and to continuously strive to grow and develop in harmony with society.

The fifth and final axis involves strengthening the development and advertising of LifeWear concepts and products from the global fashion centers of New York, Los Angeles, Paris, and London, and establishing a position as a respected brand in the United States and Europe.

At the same time, we want to proactively execute the functions of R&D centers, product development, merchandising, marketing, and other departments so that we can start to serve as a central base for our Group's global strategy.

We intend to capitalize on our location close to Silicon Valley and other key areas so that we can work together with the Tokyo headquarters to create a new industry that incorporates cutting-edge IT and logistics technologies.



LifeWear

Finally, let me say that I intend to do my utmost every day to achieve these aims, inspired by a keen sense of pride in UNIQLO as a global brand company that seeks to provide essential LifeWear for everyday living that brings joy to customers around the world.

I ask for your continued support and understanding in all these endeavors.  
Thank you.