

UNIQLO Greater China:

Promote Transformation to Local Store Management, and Move Into a New Growth Phase

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My name is Pan Ning, and I am a Group Senior Executive Officer at Fast Retailing and CEO of UNIQLO Greater China.

Today, I would like to talk to you about the current situation surrounding UNIQLO Greater China and some of our initiatives that are designed to promote the future growth of our business in this region, which serves as one of the key pillars of overall Fast Retailing growth.

Increasingly Apparent External and Internal Factors

March to May 2024 (FY2024 3Q) Greater China region revenue declined, and profit fell sharply.

Mainland China market: Revenue down, large profit decline. Same-store sales contracted.

External factors

- Strong previous year when revenue rose by approx. 50% y/y with post-COVID resumption of economic activity.
- Slowdown in consumer appetite, unseasonal weather, and other negative impacts.
- Competition between shopping malls intensified, resulting in different ability to draw customers.

Internal factors:

- Insufficient mix of products to satisfy customer needs and suit differing climates in each region.
- Insufficient marketing to inspire customer demand, such as conveying information and branding.
- Roughly 150 stores located in areas with low monthly sales and difficulties attracting customers.

Hong Kong market: Revenue down, large profit fall. Unseasonable weather such as rare heavy rainfall.

Taiwan market: Large revenue and profit gains. Early launch of Summer ranges coincided with a rise in temperatures, which helped maximize sales.

Looking first at UNIQLO Greater China performance in the third quarter of FY2024 from March to May, when revenue declined and profit contracted sharply on a local currency basis.

Breaking that performance down into individual markets, the Mainland China market and Hong Kong market reported lower revenue and sharply lower profit levels, while the Taiwan market reported sharply higher revenue and profits compared with the previous year.

I would like to focus here on the Mainland China market, where both external and internal factors played a role in dampening local performance.

Those external factors include the fact that the period was being compared with a strong previous year, when revenue rose by approximately 50% year-on-year on the back of the post-COVID resumption of economic activity, as well as decreased consumer appetite and unseasonal weather in all areas of Mainland China caused by abnormal weather events.

Furthermore, we are also noting some changes in the market as the degree of competition between shopping malls grows progressively severe and differences start to emerge around each mall's ability to attract customers.

The internal factors that adversely influenced performance in the Mainland China market include our inability to compile sufficient product mixes to satisfy customer needs and suit differing climates in each area, insufficient product mix and marketing activities contribute to sales performance. Furthermore, about 150 stores cannot attract customers due to growing differences among malls then push down the overall monthly average.

FY2024 3Q Commercial Business Trends

Strong peak bargain sales and e-commerce operations

- **UNIQLO ranked 1st for T-Mall apparel sales for both Single's Day and 618 sales.**

- ✓ Consumption in the Mainland China market tends to be more vigorous during commercial sales such as Single's Day (November 11), and the 618 sale. (June 18: JD.com 618)
- ✓ Strong conveyance of information on Douyin (Chinese TikTok) as a new sales channel. Sales via Douyin increased by approx. 30% y/y during the 618 sale.
- ✓ Customers' expectations of UNIQLO clothing remain high.

- **E-commerce sales strong. Boasted double-digit y/y growth in 3Q from March to May 2024.**

- ✓ LIVE STATION, a live-streaming service where store staff introduce products that customers can buy, is popular among customers.
- ✓ LIVE STATION sales increased by approximately 50% y/y to constitute over 20% of EC sales.
- ✓ UNIQLO online members have doubled in the past four years to nearly 80 million.

While the slowdown in economic activity continues to dampen general customer appetite in the Mainland China market, consumption tends to pick up around the time of the Single's Day and 618 sales.

UNIQLO ranked first in apparel sales among T-malls in both the W11 in November 2023 and the 618 sales season in June 2024. Some strong communication of product-linked information on Douyin (Chinese TikTok) as a new sales channel also helped fuel an increase in Douyin sales by roughly 30% year-on-year during the 618 sale. We have a keen sense of continued strong customer expectations toward the UNIQLO brand.

One noteworthy trend is the sharp uptick in e-commerce sales this year compared with the sharp growth in physical store sales last year following the reopening of the economy after the COVID-19 pandemic subsided. In fact, our e-commerce operation reported double-digit year-on-year sales growth in the third quarter from March to May 2024. Within the e-commerce operation, the LIVE STATION streaming service, where store staff introduce products that customers can buy directly, is proving very popular. Indeed, LIVE STATION sales increased by approximately 50% in the third quarter to constitute over 20% of total e-commerce sales.

UNIQLO online membership has doubled in the past four years to nearly 80 million, which we see as a great opportunity to further expand our business going forward.

Mainland China Market: An FR Group Growth Pillar

UNIQLO's relative competitiveness is growing

- **Customer mindsets changed in Mainland China after COVID, and customers became more discerning when choosing products and services.**
 - ✓ Cost-performance consumption is particularly marked among younger generations. “Pingti” (affordable alternatives): New consumer values where instead of choosing a brand product, consumers choose a more affordable product that differs very little in terms of quality.
 - ✓ Pursuit of safety, security, and health. Increased interest in trust, comfort, and sports.
- **UNIQLO LifeWear could become the brand of choice in light of changing consumer mindset.**
 - ✓ Simple, high-quality, basic, timeless.
 - ✓ Full lineup of highly functional clothing that can be used for both sports and everyday wear.
 - ✓ Brand of choice for customers of all ages thanks to good balance between price and value based on MADE FOR ALL values.
 - ✓ Global support for UNIQLO's extremely well-sewn everyday wear made from the highest quality materials under the guidance of the world's top designers.
 - ✓ UNIQLO's relative competitiveness is growing.

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Customer mindsets have changed considerably in Mainland China in the post-COVID era, and customers have become much more discerning when it comes to choosing products and services. Cost-performance consumption is particularly marked among younger generations, and we are seeing a new set of consumer values centered on “pingti” (affordable alternatives), where consumers choose a more affordable product that differs very little from branded items in terms of quality.

More and more consumers are looking to improve their quality of life in terms of safety, security, and health, and there is a growing interest in and demand for products that are reliable, comfortable to wear, easy to look after, and can be worn as everyday wear and as sports wear.

The UNIQLO LifeWear that we provide is simple, high-quality, basic, and timeless and boasts a full lineup of highly functional clothing that can be used for both sports and everyday wear. UNIQLO is the brand of choice for customers of all ages thanks to a good balance between price and value based on our MADE FOR ALL philosophy. We are witnessing strong global support for UNIQLO's extremely well-sewn everyday wear made from the highest quality materials under the guidance of the world's top designers.

UNIQLO's relative competitiveness is actually growing as consumer sentiment changes. We feel UNIQLO has the potential to become the go-to brand of choice for consumers in Mainland China.

Still plenty of growth potential in Mainland China market

- **UNIQLO visibility in major cities in Mainland China: 94%,
Percentage of respondents who had bought a UNIQLO product at least once: 84%**
 - ✓ The UNIQLO brand is extremely well known in the Mainland China market. Customers share information across borders from North America to Southeast Asia, which also helps significantly boost global sales
- **Percentage of people who chose UNIQLO as one of their top five go-to brands: 56%**
 - ✓ While UNIQLO LifeWear is already viewed as essential by many customers in the Mainland China market, half the respondents still do not select UNIQLO as a brand they would purchase regularly
- **UNIQLO's current market share is still 2% or lower**
 - ✓ We are convinced that there is great potential to expand business by ensuring UNIQLO is recognized as a brand that is deeply sensitive to and strongly invested in customers' everyday lives

In a survey conducted in spring 2024, UNIQLO visibility in 43 major cities in Mainland China stood at 94%, and the percentage of respondents who had bought a UNIQLO product at least once reached 84%. The UNIQLO brand is extremely well known in the Mainland China market, and I feel it has already become a top brand in that market. Thanks to this high level of recognition, customers share information across borders from North America to Southeast Asia, which also helps a great deal in terms of boosting global sales.

The survey also revealed that 56% of respondents included UNIQLO as one of their top five go-to brands. I think the reason for that figure is that, while UNIQLO LifeWear is already viewed as essential by many customers in the Mainland China market, half the respondents still do not select UNIQLO as a brand they would purchase regularly.

UNIQLO's current market share is still 2% or lower. We are convinced there is great potential to expand our business by ensuring UNIQLO is known as a brand that is deeply sensitive to and strongly invested in customers' everyday lives.

From Chain Store Management to the Next Stage

Return to growth by pursuing local store management

- Chain store development is maturing. Operation is approaching a turning point.
- Achieved efficient, high-growth operations using chain store development methods to date. Greater China region generated revenue of 620.2 billion yen from 1,031 stores in FY2023.
- Going forward, we will continue to pursue the benefits of chain store development while also implementing thorough local store management to overcome internal issues, and put the Mainland China market back on a high growth trajectory.

What we want to achieve through local store management

- Address the need for product mixes that are tailored to large areas with different climates and cultures.
- Our stores are our best form of media. Strengthen branding that conveys LifeWear's intrinsic value.
- Open stores in the best locations with strong community roots. Develop an indispensable community-focused presence.
- Nurture store managers who think for themselves, devise sales plans that accurately capture customer demand, and create new demand.

One of the reasons why we have not been able to sufficiently unleash this potential is because our chain store development is maturing and reaching a turning point.

Chain store development has served us extremely well to date, fueling efficient, high-growth operations and generating revenue of 620.2 billion yen from 1,031 stores across the Greater China region in FY2023.

Going forward, we will continue to pursue the benefits of chain store development while also implementing thorough local store management to overcome internal issues and put the Mainland China market back of a high growth trajectory.

What we want to achieve through local store management is to address the need for product mixes that are tailored to large areas with different climates and cultures. We want to make better use of our stores, which are our best form of media, to strengthen branding that conveys LifeWear's intrinsic value. We want to open stores with strong community roots in the best locations and develop an indispensable community-focused presence. Finally, we want to cultivate store managers who think for themselves, devise sales plans that accurately capture customer demand, and create new demand.

How to Strengthen Local Store Management

- 1. Change store opening strategy**
- 2. Greater integration of physical stores and e-commerce**
- 3. Enhance product mixes tailored to local needs**
- 4. Nurture and create management personnel**

Next, I would like to talk about the four initiatives we need to focus on to achieve local store management.

Implementing the Shift to Local Store Management (1)

1. Change store opening strategy

- Increasingly obvious differences in shopping malls' ability to attract customers.
- Store network restructuring with a focus on quality rather than quantity of stores.
- Careful selection of new stores that can embody our brand value and encourage customers to shop there for a long time. Aim to open between 50 to 80 new stores a year.
- Implement scrap & build (S&B) policy for roughly 50 stores a year for the three years from FY2024.
 1. Scrap stores with low monthly sales and open large-format stores in better locations.
 2. Improve position within shopping malls, expand sales floor, refurbish stores.
 - ⇒ Increase sales per store by more than 1.5 times compared with current levels.
- S&B at 22 stores since FY2023 improved monthly sales per store by approx. 1.5 times.



▲ UNIQLO Shenyang Joy City



Improve in-mall location to double sales and customer visits



▼ UNIQLO Ningbo Tianyi Guangchang

The first initiative involves changing our store opening strategy.

We are noting some increasingly obvious differences in shopping malls' ability to attract customers. Given this growing differential between malls, we are restructuring our store network with a focus on the quality rather than quantity of stores. In future, we will only select new stores that can embody our brand value and encourage customers to shop there for a long time. While the ultimate aim is to open 80 new stores a year, I want to make sure we open at least 50 new stores each year with this renewed focus.

Another initiative involves applying our scrap & build (S&B) policy to roughly 50 stores a year for the three years from FY2024. That policy will involve closing stores with low monthly sales and replacing them with large-format stores in better locations as well as improving the position of our stores within malls that generate high monthly sales, expanding sales floors, and refurbishing stores as part of our plan to increase sales per store by at least 1.5 times compared with current levels.

We have already implemented S&B at 22 stores since FY2023 and we improved monthly sales per store by approximately 1.5 times through those measures.

Implementing the Shift to Local Store Management (2)

1. Change store opening strategy

- Refurbish flagship stores in Shanghai, Guangzhou, etc. to meet customer needs and values.
- Open flagship stores with an overwhelming presence in large cities with great potential that do not already have flagship stores, such as Chongqing, Chengdu, Tianjin, Xi'an, Kunming, Zhengzhou, etc.
- Continuously convey information from stores and engage in community-building activities to earn local customer support.
- Implemented measures inspired by local store management at the new Wuhan Chuhe Hanjie Street store (opened May 2024) such as collaborating with local universities. Over 30,000 customers visited the store on opening day, which was a great success.
- The unique value LifeWear has to offer can also greatly benefit the shopping malls that house the UNIQLO brand, creating a win-win relationship and making UNIQLO the brand malls most want to attract.



Enhancing local conveyance of information at the UNIQLO Wuhan Chuhe Hanjie Street by tying up with local universities, etc.

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We also intend to strengthen LifeWear branding around our flagship stores.

We will refurbish flagship stores in Shanghai, Guangzhou, and other locations to meet current customer needs and values.

There are comparatively few flagship stores in the Mainland China market despite its huge size, so we intend to open flagship stores with an overwhelming presence in large cities with great potential that do not already have flagship stores, such as Chongqing, Chengdu, Tianjin, Xi'an, Kunming, Zhengzhou, and other locations. These stores will then communicate a continuous stream of product-related information and engage in community-building activities to earn local customer support and build a stronger brand presence.

As part of this drive, we opened the new Wuhan Chuhe Hanjie Street store with its extensive 2,150m² shop floor in May 2024 as a representative flagship store for the city of Wuhan. Wuhan boasts one of the world's largest number of university students, so we teamed up with a local university and hosted a forum on the university campus in which we explained about future employment opportunities, held a student-led fashion show, and interacted with many university students. Over 30,000 customers visited the store on opening day, which was a great success.

We tend to focus more closely on the quality of our stores as opposed to the number of stores, so our standards for opening new stores are extremely high. Opening 80 new stores a year is no easy feat, but I think that the unique value that LifeWear has to offer also greatly benefits the shopping malls that house the UNIQLO brand, and we are keen to work with shopping malls to invigorate local areas and communities.

Thanks to our efforts to maintain this win-win relationship, UNIQLO is fast becoming one of the brands that malls most want to attract.



Please take a look at this video that captures the mood on the opening day of this flagship store in Wuhan.

2. Greater integration of physical stores and e-commerce (EC)

- EC accounts for approx. 25% of total sales, of which approx. 40% is online-to-offline (O2O) sales (FY2024 1Q-3Q).
- Help expand overall sales by directing customers from stores to EC and EC to stores.
- UNIQLO Mainland China boasts a directly operated store network and management capabilities as well as a strong ability to attract customers through EC. Centralizing inventory will enable us to provide services and convey information based on the integration of store and EC operations.
- LIVE STATION streaming featuring in-store staff is popular. We are currently training roughly 2,000 store staff to conduct LIVE STATION broadcasts from all stores.
- Fully capitalize on WeChat, Douyin, etc. as well as our own digital tools.
- Aim to boost EC to 30% of total sales .



▲ Staff in each store actively convey information via LIVE STATION streaming services



These items can be purchased through Douyin ▶



The second initiative we are taking to implement the shift to local store management is to further integrate our physical stores and e-commerce operation. E-commerce currently accounts for approximately 25% of total sales, of which roughly 40% is online-to-offline (O2O) sales.

We can help expand overall sales for the entire business by expanding integrated services and directing customers from physical stores to online stores, and from online stores to physical stores for a seamless and smooth shopping experience.

UNIQLO Mainland China boasts a directly operated store network and management capabilities as well as a strong ability to attract customers through e-commerce. Centralizing physical store inventory and e-commerce inventory to a greater extent will enable us to provide services and convey information based on the integrated store and e-commerce operations.

Our LIVE STATION streaming featuring in-store staff is popular, and customer support for this service is increasing in each area. We are currently training roughly 2,000 store staff to broadcast LIVE STATION services from all our stores. In addition to our own digital tools, we also fully capitalize on WeChat, Duoyin , and other digital platforms to help achieve our aim of increasing the ratio of e-commerce sales to total sales to 30%.

Mainland China UNIQLO LIVE STATION in Action



I would like to show you what kind of messages we are conveying via the LIVE STATION streaming service. Please watch this in-house training video.

3. Enhance product mixes tailored to local needs

- There are many long-term partner factories in the Mainland China market. Since it is both a production and consumer area, it is possible to perfect “making clothes while selling them” to a high degree.
- Inventories in May 2024 were approx. 10% lower than at the end of May 2023.
- We utilize these strengths to divide Mainland China into regions by climate, lifestyle, culture, etc. and create product mixes that match the characteristics of each region, control inventory, and strengthen marketing.
- For instance, in August, Summer items top the sales rankings in South China, while Fall and Winter products feature as best-selling products in North China. These differences can be even more complex depending on the region, so we have to address them in minute detail.

August Rankings of Best-selling Items in South China and North China

Rank	South China	North China
1	Cotton Relaxed Ankle Pants (Fall)	Cotton Relaxed Ankle Pants (Fall)
2	AlRism Cotton Oversized T-shirt (Summer)	Flannel Shirt (Winter)
3	UT (NY Pop Art) (Summer)	Slub Cotton Shirt (Fall)
4	Dry Pique Polo shirt (Summer)	Cotton Shirt (Fall)
5	Washed Jersey Pants (Summer)	Flannel Pants (Winter)

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The third initiative we are taking to implement the shift to local store management is to enhance product mixes tailored to local needs.

UNIQLO has developed alongside the textile industry in the Mainland China market and has contributed to the market through its business expansion. We have many long-term partner factories in the Mainland China market. Since it is both a production and a consumption area, it is possible to perfect “making clothes while selling them” to a high degree. As a result, we were able to reduce inventory levels at the end of May 2024 by approx. 10% compared to the end of May 2023 despite the slowdown in sales.

We capitalize on these strengths to divide Mainland China into regions by climate, lifestyle, culture, etc. and create product mixes that match the characteristics of each region, control inventory, and strengthen marketing.

For instance, in August, Summer items top the sales rankings in South China where the weather is hot, while our Fall and Winter products feature in the best-selling product lists in North China, where the temperature is starting to cool. This is just one example, and these kinds of differences can grow even more complex toward the end of a season depending on the region. Therefore, we have to compile a detailed, tailored response for each region regarding the handling of inventory and marketing.

4. Nurture and create management personnel

- Implement sweeping Zen-in Keiei management principles in which every individual adopts a managerial mindset, and makes and executes autonomous decisions.
- To nurture store managers as business professionals, we hold store manager conventions with global headquarters, use internal global training tools to teach managers about FR corporate philosophy and business principles, and send management team member into stores every week to conduct practical on-site management training.
- We hire roughly 300 talented people every year. Last year, approx. 140,000 people applied for new graduate positions. Fast Retailing remains a popular choice in the recruitment market. We will continue to hire and nurture large numbers of management talent.



▲ Recognized as a Top Employer for nine consecutive years



▲ Management teams visit over 500 stores annually to offer on-site training



▲ Training video contents

The fourth initiative we are taking to implement the shift to local store management is to cultivate and create management personnel.

We are implementing sweeping Zen-in Keiei management principles in which every individual adopts a managerial mindset and makes and executes autonomous decisions.

To cultivate store managers as business professionals, we hold store manager conventions with global headquarters, utilize in-house global training tools to teach managers about FR corporate philosophy and business principles, and send management team members, including myself, to stores every week to conduct practical on-site management training sessions for local store managers.

We hire roughly 300 talented people every year in the Mainland China market. Last year, approximately 140,000 people applied for new graduate positions, so Fast Retailing remains a popular choice in the recruitment market, and we will continue to hire and cultivate large numbers of management talent

The Most Important Talent Hub in the World

Produced 118 personnel active in 17 markets worldwide

- Working with global headquarters, Mainland China the largest producer of human talent in UNIQLO International.
- Nurturing highly talented individuals from Mainland China to become globally competent management team members. Enhancing the pool of talented human capital across the Group by strengthening business foundations in different national operations and serving as role models for local human resources.
- Applying various perspectives gained through management experience to increase customer satisfaction worldwide.



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UNIQLO Europe
Manager,
E-commerce Division

Furthermore, we work with global headquarters to produce human talent on a global scale. The Mainland China market has dispatched a total of 118 excellent personnel to 17 markets worldwide and is fast becoming the largest producer of human talent in the UNIQLO International business segment.

In addition to cultivating highly talented individuals from Mainland China to become globally competent management team members, we enhance the pool of talented human capital across the Group by strengthening business foundations in different market operations and by serving as role models for local human resources.

We will also apply the various perspectives gained through our management experience to increase customer satisfaction worldwide.

Achieve 1 trillion yen revenue in FY2028.

Aim for 3 trillion yen revenue target.

Expand future network to 3,000 stores

**Implement local store management and
Zen-in Keiei management principles.**

**Become the most sought after brand
in the Greater China region!**

We will work hard to achieve the sales target for UNIQLO Greater China of one trillion yen in FY2028. This is still a large market with a future goal of achieving 3 trillion yen in revenue. That has not changed. We will aim to build a future network of 3,000 stores, all while maintaining our focus on store quality.

All our employees will work together to implement local store management and Zen-in Keiei management principles and become the most sought after brand in the Greater China region.

We hope you will support us as we strive to achieve all our goals.