

# Driving Digital Transformation

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## A Supply Chain with Customers at the Center

Globalization and digitalization are happening at lightning speed. Intricate connections between people, things and bits of information are revolutionizing the concepts of borders, industries and companies. In the clothes-making business, traditional demarcations between apparel, retail and textile industries are disappearing. To ensure that Fast Retailing thrives in this era of radical change, I believe it is vitally important to create a new industry that can effectively turn information into commercial products.

Most of the world now has access to the internet and smartphones, and information can be transmitted at ultra-fast speeds. This enables us to continuously engage with customers online and reflect their feedback in our supply chain. We are already embracing these changes and proactively transforming ourselves into a “digital consumer retail company” that can quickly translate customer desires into better products and services.

## Ariake Project Kickstarts Sweeping Change

To accelerate Fast Retailing’s transformation into a digital consumer retail company, we launched what we call the Ariake Project. The most important part of this transformation is to completely change the way our employees work. To that end, we constructed UNIQLO CITY TOKYO, a more than 16,500m<sup>2</sup> open-plan office on the sixth floor of our Ariake warehouse. We have created small, flat teams that communicate closely across corporate departments and rapidly execute business analysis, decision-making and the implementation of ideas.

The Ariake Project encompasses numerous



The bustling “main street”  
at UNIQLO CITY TOKYO

concurrent initiatives, including the analysis of digital information to accurately forecast demand; closer communication with partner factories to achieve a flexible manufacturing structure; the creation of a speedy, highly efficient distribution system; the use of digital marketing to communicate directly with customers; an increase in the online shopping services we offer; and the establishment of systems that will support all these initiatives. The Ariake Project is already generating huge benefits.

The cooperation of our business partners is essential to the success of the Ariake Project. Our partner textile factories and distribution companies are working hard to achieve complementary transformations. We will not be shackled to old ways of thinking, and we will invest the necessary time, effort and resources. We are determined to embrace the technologies of the future and do whatever we can to turn ourselves into a digital consumer retail company.



# UNIQLO International Powers Ahead

UNIQLO Passeig de Gràcia store, Spain

## UNIQLO International Revenue to Surpass UNIQLO Japan's

We expect UNIQLO International revenue to overtake that of UNIQLO Japan for the first time in FY2018. Due to its high margins, UNIQLO International is also approaching UNIQLO Japan in terms of operating profit. I am delighted with this remarkable accomplishment. It has been almost 17 years since we opened the first UNIQLO store outside Japan in London, and I am so proud of how we have grown the Japan-born UNIQLO label into a thriving global brand that is loved by customers worldwide.

The Greater China, South Korea and Southeast Asia & Oceania operations produced truly spectacular performances this business year, serving as the key driver of Group growth. I am especially proud of the talented managers with strong leadership skills that we have nurtured in these three regions. This gives us confidence in future business expansion.

The apparel industry is embracing globalization at

such a rapid pace that we are entering an era in which only fully recognized global brands can survive. UNIQLO has achieved such strong growth in Greater China, South Korea and Southeast Asia precisely because it is recognized as a global brand. We have established a strong presence alongside other brands such as ZARA and H&M by opening flagship and large-format stores on prominent high streets in New York, Paris, London, Shanghai and other major world cities, and by earning the loyal support of customers worldwide. This highlights our leading position in global markets.

UNIQLO's LifeWear concept stems from a passion to create ultimate everyday wear: comfortable, high-quality, fashionable clothing at prices that everyone can afford. UNIQLO will continue to grow not as a maker of trend-chasing apparel, but as a brand that represents a new category of clothing, one that is part of the fabric of everyday living and that is committed to making people's lives richer and more comfortable.

## A Solid Position in Greater China and Southeast Asia

UNIQLO International's key strength is its established brand position and firm management foundation in regions with strong potential for economic growth, such as Greater China and Southeast Asia. As their economies develop, Asian markets will undoubtedly witness explosive growth in middle-income populations. This presents a huge business opportunity for UNIQLO. While Japan has a total population of 120 million, Greater China and Southeast Asia are estimated to have over one billion white-collar workers alone. My focus is to ensure solid growth in Greater China and Southeast Asia, which have the potential to grow into markets 10-20 times the size of Japan's.

We have announced five-year targets of increasing revenue from the current ¥346.4 billion to ¥1 trillion in Greater China, and from ¥110 billion to ¥300 billion in Southeast Asia & Oceania. If we also continue to open stores in the United States and Europe, I believe we can expand UNIQLO International sales to over ¥2 trillion within the next few years.

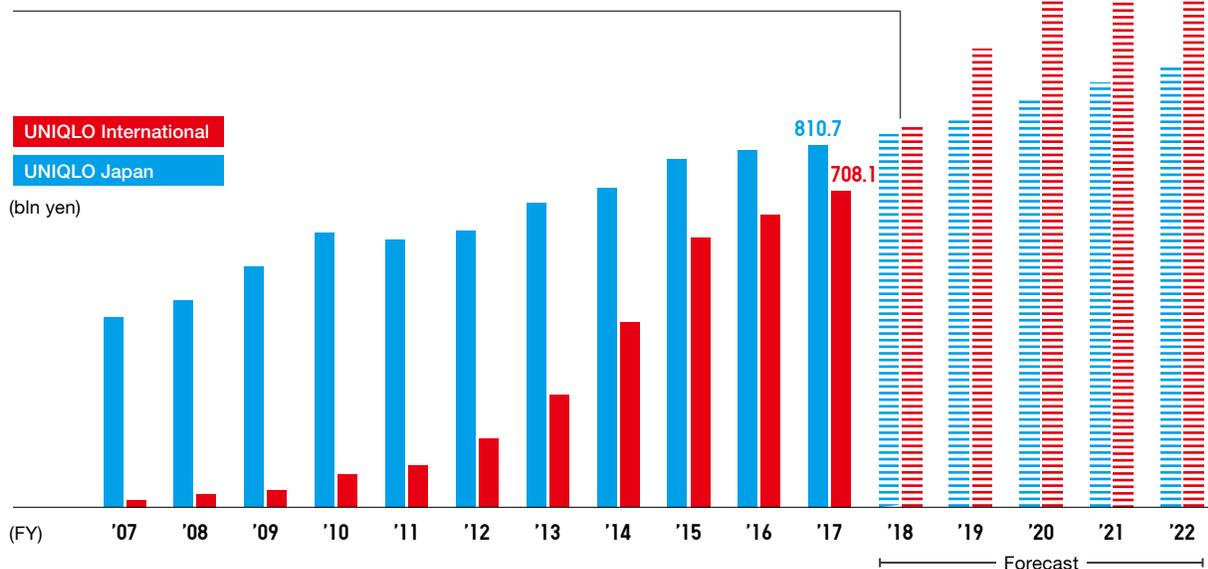
## Global is Local, Local is Global

We aim to earn loyal customer support by offering everyday wear that suits local climates and cultures, while at the same time protecting UNIQLO's unique identity with regard to overall product ranges and mixes, store layouts, in-store services and store operations. Striking this balance can be harder than you think. We call this seemingly contradictory initiative "Global Is Local, Local Is Global."

Our aim is to ensure that people who want to buy everyday wear come to our stores first. For example, in Southeast Asia, a large range of warm-weather items that suit the tropical climate is available to customers year-round. This focused strategy has turned many people into UNIQLO fans. They recognize UNIQLO as a Japan-based brand that caters to all nationalities, cultures, climates and income levels.

### Revenue Comparison

## FY2018 A Big Year for UNIQLO International

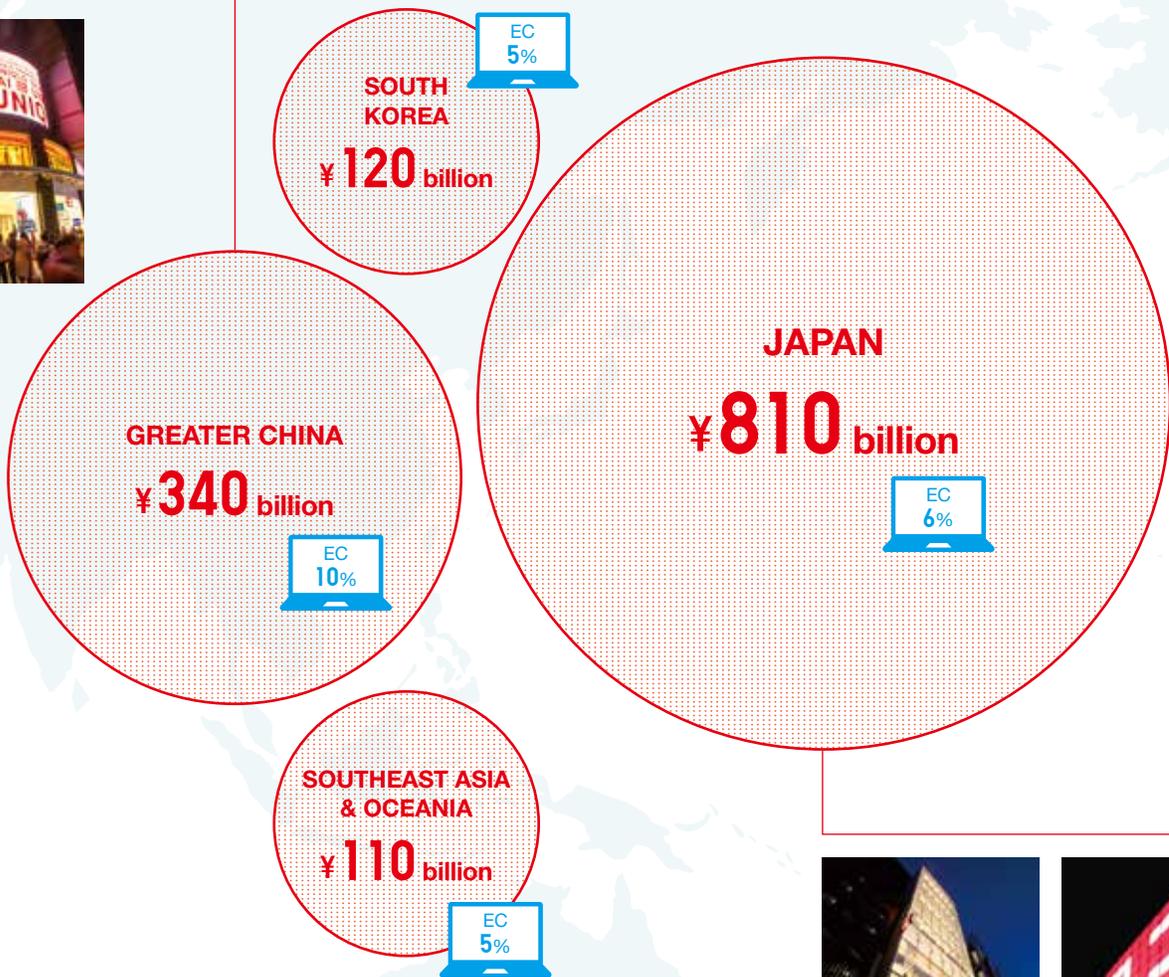


UNIQLO Revenue by Region (including e-commerce share) (FY2017)

# GREATER CHINA



SHANGHAI



GINZA



SHINSAIBASHI

## Expand Online Sales Worldwide

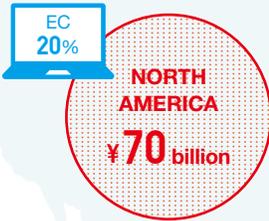
Expanding online sales and services is a vital element of our global business strategy. Our strategy focuses on cooperating with firms with superior technology in each region to expand operations. Digital communication via social media is well developed in Greater China and Southeast Asia, which provides us with strong

opportunities for online growth in these regions. Our online business in Mainland China is doing well. Progress there includes our recently launched online-to-offline (O2O) service aimed at further fusing our physical and online stores—it gives customers the option to pick up online purchases in-store.

## UNIQLO USA Moving Forward

UNIQLO USA is now showing signs of a bright future. The operation successfully halved its operating loss in FY2017, thanks to a concerted effort by the local CEO and staff to create a strong leadership framework. We will increase brand visibility by opening stores in major cities and competitive shopping malls. In order to secure profitable operations, I also want to expand revenue from the current ¥70 billion to ¥100 billion over the next few years.

## NORTH AMERICA



NEW YORK

## JAPAN

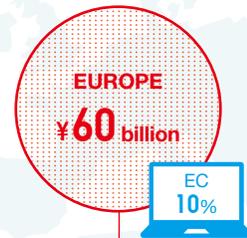


SHINJUKU



OSAKA

## EUROPE



PARIS



BARCELONA

## Expanding Our Presence in Europe

UNIQLO Europe has strengthened its operational base. We accelerated store openings in France and Russia, two markets that have shown positive early growth. Our entry into Spain (Barcelona) in fall 2017 also proved a success. We plan to open our first store in Sweden (Stockholm) in fall 2018 and will continue expanding into major cities across Europe.



# Optimizing Efficiency at UNIQLO Japan

UNIQLO Nagoya store

## Promoting Local Store Management

Japan's shrinking and aging population translates into increasingly tough conditions in the apparel business. Despite that, UNIQLO Japan has seen customer numbers increase thanks to easily recognizable everyday prices, which were first introduced in spring 2016, as well as pacesetting price leadership.

Going forward, I want us to fully embrace "Koten Keiei" (local store management) principles in order to grow individual store sales while reducing costs and increasing efficiency. Experienced employees with intimate knowledge of local needs are vital to the success of community-centered stores. By delivering tailored product mixes and marketing strategies, we can offer LifeWear that perfectly suits local lifestyles. Koten Keiei is the best way to train all personnel to think like store managers and maximize the capabilities of each of our 10,000 locally-stationed full-time employees.

## Fusing In-store and Online Shopping

As our online operations expand, we will seamlessly link them to our physical store network to offer customers an even more convenient shopping experience. To maintain our competitive edge, our stores need to offer ever better services and ever more capable staff. We must make it possible for customers to pick up their online purchases, or check their measurements in-store to facilitate purchasing semi-tailored clothing online.

Making it convenient for customers to pick up purchases will enable them to order special collaboration items (only available in large-format stores and online) and have them delivered to any store in Japan. These initiatives will significantly increase online sales. We are also improving the efficiency of store operations. Our new inventory management system, which was introduced in fall 2017 and uses radio-frequency identification (RFID), simplifies stocktaking and search tasks.

# GU: New and On-Trend Fashion from Japan

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## Rising to Challenges

After several years of strong growth, our low-price GU casual fashion brand reported a sharp decline in profit in FY2017. The operation faced multiple challenges in arenas such as management structure, personnel training, organizational power, product development, production lead times and low-cost store management. I believe that challenges inspire positive change. The most pressing issue is how to redefine GU as a brand that can establish a solid position in global markets. Once we answer this question, we can pursue further rapid expansion of the GU business.

GU's strength lies in its ability to rapidly incorporate the latest fashions and offer them at amazingly low prices. The GU concept is different from UNIQLO, so the two brands do not compete. Going forward, I want to open more stores offering both brands under one roof to capture new synergies and better meet customer needs.

To promote further expansion, we need to establish GU's global brand position and expand its international presence. The GU store we opened in Hong Kong in March 2017 has enjoyed great success, and GU stores in Mainland China and Taiwan are coming into their own. I would also like to open GU stores in South Korea and Southeast Asia. We should use GU's modest FY2017 performance as a springboard to overhaul the entire supply chain—from product development to materials procurement—and to develop new production bases.

GU revenue currently stands at approximately ¥200 billion, but our target is to create a ¥1 trillion brand over the next decade. I am determined to grow GU into a successful fast moving brand from Japan and a second pillar operation for the Fast Retailing Group.



# Managerial Thinking at Every Level

## Encouraging All Staff to Think Like Managers

“Changing clothes. Changing conventional wisdom. Change the world.” Our corporate statement forms the basis for how Fast Retailing tries to be a truly good global citizen. We want employees to channel their individual creativity into promoting innovation and providing customers with great clothing and impeccable service.

It is important to inspire employees worldwide to work passionately under our “Zenin Keiei” and “Global One” principles. Zenin Keiei means all Fast Retailing staff, from in-store part-timers to top managers, are empowered to adopt a managerial mindset, taking initiative to offer customers the best possible products and services. This improves on traditional retail set-ups, where managers make decisions and in-store staff follow orders. Additionally, Global One encourages all Group businesses to share their success stories and global best practices with each other.



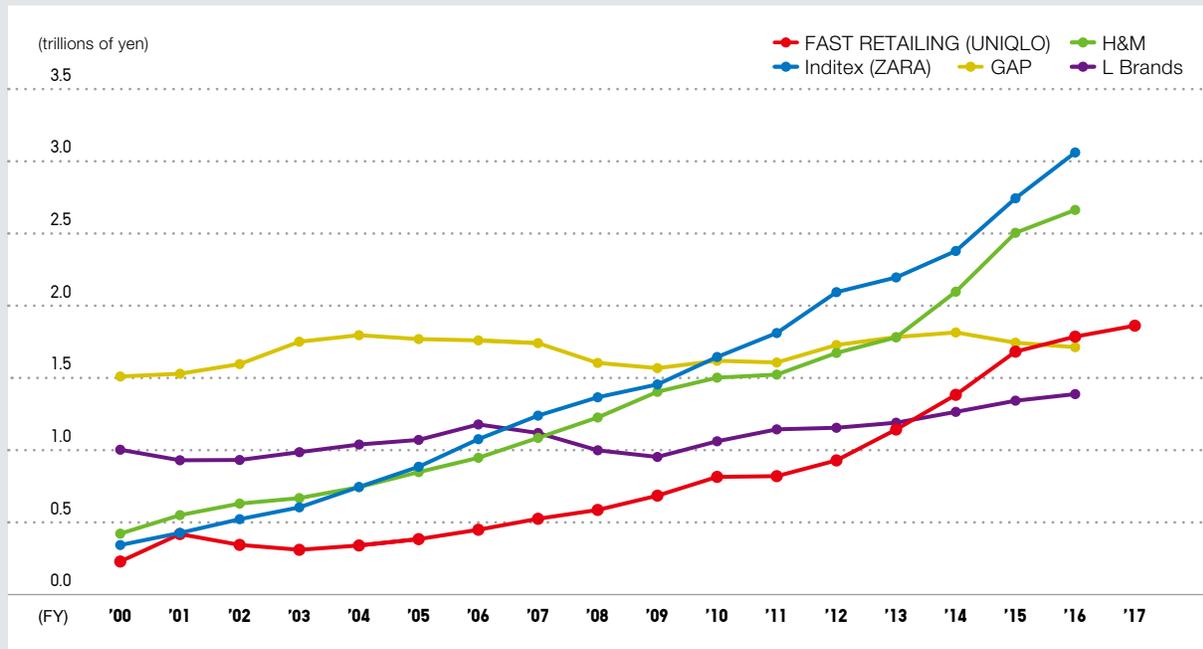
### FAST RETAILING WAY (FR Group Corporate Philosophy)

**Changing clothes.  
Changing conventional wisdom.  
Change the world.**

#### GROUP MISSION

- To create truly great clothing with new and unique value, and to enable people all over the world to experience the joy, happiness and satisfaction of wearing such great clothes
- To enrich people’s lives through our unique corporate activities, and to seek to grow and develop our company in unity with society

## Sales at Leading Apparel Retailers



\*Compiled from individual annual report data and calculated using exchange rates as of end August 2017.

## Aiming to Be Number One

I am passionate about transforming Fast Retailing into a digital consumer retail company and creating an entirely new business model to help establish our position as the world's number one apparel retailer. In 2000, Fast Retailing sales were just 20% of GAP's. By 2015, they were roughly the same. Today, Fast Retailing is the world's third largest apparel retailer in terms of sales, behind Inditex (the operator of the ZARA brand) and H&M. Like us, both of these companies are apparel retailers that successfully manage all processes from planning and design through production and retail.

However, UNIQLO's LifeWear concept of ultimate everyday clothes differentiates us from brands such as ZARA and H&M. In contrast to their focus on fast fashion, LifeWear stems from the conviction that clothes are meant to suit the values of the person wearing them—that individuality comes from the wearer, not the clothing. As the Ariake Project bears fruit, we are transforming our business model to better

incorporate customer preferences and respond to their needs. This will drive the evolution of LifeWear and will put customers at the center of the creation of their clothing.

Fast Retailing exists to enrich society and our customers' lives. We will uphold that commitment as we strive to make the world a better place.

## Strong Performance, Strong Dividends

Our policy is to offer high dividends that closely reflect business performance. We use profits to fund future growth, while retaining earnings to ensure healthy finances and provide good shareholder returns. In FY2017, we maintained our annual dividend at ¥350. Rewarding shareholders remains one of Fast Retailing's most important objectives.