

## Analysts' Meeting Q&A

### **Business Results for Fiscal 2016 (September 2015 to August 2016)**

Below are questions from our analyst's meeting concerning business results for fiscal 2016, or the twelve months from September 2015 through August 2016. The answers have been edited to keep them short and clear.

**Q: You have set yourselves medium-term targets for annual revenue of ¥3 trillion and an operating profit margin of 15%. How do you intend to achieve that higher OP margin?**

**A: Tadashi Yanai, Chairman, President and CEO** – First by expanding our global operations. As we expand our global operations, we must also instigate changes in our actual corporate framework, so we don't simply reduce business cost ratios to curtail bloated expenses, but to pursue more efficient expense ratios as a growing corporate entity. A small portion of the UNIQLO International segment is still not operating successfully, but we expect that area will also start generating better results from next year.

We are also looking to expand the Group through digital innovation. We have already started to introduce Ariake-style next-generation warehouse systems around Japan, and we plan to open more of these centers in Asia, China, Europe and the United States. Our ultimate aim is to reach a stage where we can deliver products to customers directly from the factory.

**Q: You said you expect to achieve approximately 2% year-on-year growth in the same-store sales + online sales measure for UNIQLO Japan in fiscal 2017. How firm is this forecast?**

**A: CEO Yanai** – I think that figure is most definitely achievable.

**Q: This is a question about GU. Womenswear constitutes a large proportion of the current GU product range but, as you expand your GU store network, do you plan to also strengthen your menswear and kids wear ranges? Also, when you decide to expand GU's international presence, you will face competitors such as H&M and ZARA, in a market where consumers tend to prefer stylish European fashion. GU's inherent fashion style is a little different. Is this a concern in terms of your international expansion strategy?**

**A: Osamu Yunoki, CEO G.U. Co., Ltd.** – First, we do intend to put considerable effort into strengthening men's and kid's clothing going forward. Our initial task was to establish a GU brand position that emphasized "trendy fashion," and that is why we focused largely on designing and developing women's wear to date. That strategy has proved successful in terms of establishing the GU brand, and clearly differentiating it from UNIQLO. Now, we have reached the stage where we can broaden our focus. Men's and kid's wear both harbor huge growth potential for GU, so we want to expand these ranges, ensuring a distinct differentiation with UNIQLO. Menswear doesn't require quite as many design or trendy features as womenswear. Since UNIQLO already offers high-quality basic menswear with a hint of fashion, we would like to focus on offering a more design-focused,

trendy feel for its men's ranges. In fact, I don't think it would sell unless we offered that additional trendy flavor.

In terms of developing GU in international markets, we will concentrate first on the Asian market. The clothes we wear today are "western clothes", originating from Europe. Fast fashion was originally developed by H&M and ZARA. For its part, GU collects information and ideas on latest fashion trends from around the world, and incorporates those ideas into its designs along with an element of distinctive Japanese DNA. It might sound a little abstract, but the GU brand definitely incorporates that renowned Japanese talent for ensuring just the right balance in its product offerings: GU clothes are not over-designed, they are just right. GU clothes are easy to wear and easy to coordinate. These are some of GU's most attractive features, and what GU customers in Shanghai and Taiwan say they like about the brand. We will have to experiment along the way, but we are determined to carve a unique position for the GU brand in international markets, weaving a unique Japan-style DNA into exciting but easy-to-wear clothes.

**Q: From what you have just said, it seems you plan to position GU in Asian markets as a brand offering "fashion with an intrinsic Japanese flavor," and let customers discover the value of that Japanese-style DNA for themselves. Is that right?**

**A: GU CEO Yunoki** – To be able to carve new demand, it is extremely important that customers discover and recognize the value of GU for themselves. Customers want to enjoy fashion, but that can require considerable effort. It can be hard for customers to find which of the latest trends really suits them. However, exploring fashion trends can be very exciting and fun. If we can emphasize that fact and make it easier for customers to enjoy fashion, then I believe we draw out latent demand for fast fashion, GU style.

**Q: When do you expect the Ariake distribution center to be up to full speed, and are the 10 other distribution centers around Japan also operating already?**

**A: CEO Yanai** – I expect the warehouse to be operating fully by roughly next spring. We are not just talking about the launch of a single distribution center but the overhaul of our entire supply chain and corporate framework, so we can't complete the process in a single leap. Having said that, you should start to see obvious and genuine changes in terms of expanded distribution and e-commerce-related services from spring 2017.

**A: Takeshi Okazaki, Group Executive Vice President & CFO** – We have started store and online deliveries from the Ariake warehouse. In that sense, it is already fulfilling all functions. However, to achieve what we define as full operation, we have to attain specific targets on productivity and processing efficiency. That will take a little more time. I also expect customers will notice a distinct change in the way UNIQLO operates from around next spring.

Regarding the other 10 national distribution centers, they have started operating, but not all 10 centers are intended to deal with both physical-store and online deliveries. In fact, only a few of the

centers will conduct EC deliveries.