

## **Analysts' Meeting Q&A**

### **Business Results for Fiscal 2017 First Half (September 2016 to February 2017)**

Below are questions from our analysts' meeting concerning business results for the first half of fiscal 2017, or the six months from September 2016 through February 2017. Some answers have been edited in the interests of brevity and clarity.

**Q1: You are actively reforming your supply chain at the Ariake Office but what organizational changes are you implementing?**

**A: Tadashi Yanai, Chairman, President and CEO** – Organizationally, we still have borders between each section, so I want to remove those borders so we can create an entirely new supply chain from beginning to end. We will be controlling and conducting the product cycle from the Ariake office, from the collection of information through to product planning, production, retail and delivery. I want to build a system that links Ariake office teams responsible for products, retail, distribution and information systems directly with our global R&D centers and factories so they can make instant decisions and swiftly move the work process forward. As an organization, I want to ensure that small teams can work seamlessly with all parts of the company, unfettered by job classification, level or department. To achieve that, we have to build information systems that facilitate information sharing and concurrent operation of individual processes. We also have to revolutionize the way we work.

**Q2: Several weeks have now passed since you moved these operations to the Ariake Office. Are you starting to see any positive effect? Can you give us some concrete examples of how things have changed?**

**A: CEO Yanai** – If you look at the set of pictures that we have distributed to you, you will see that the Ariake office is an open-plan 16,529m<sup>2</sup> space. We call the Ariake office UNIQLO CITY TOKYO. It has a corridor running down the middle of the office, with library space, a coffee shop and multiple lounges. The office environment is designed so that, as soon as a work-related issue is discovered, all the right people can gather instantly in one of the lounges to discuss a solution.

**A: Takeshi Okazaki, Group Executive Vice President & CFO** – One of the most obvious examples is the way the seating is laid out to facilitate concurrent operations. Developing a product requires R&D staff, designers, pattern-makers, merchandisers, product planners who set out the product plan, and production managers who oversee the manufacture of the product. Of course, you also need someone responsible for marketing. Each of these people belong to a different department but they all sit together in the Ariake office so they can watch the product develop together and discuss issues as a group. We also have a mockup store in the building so that the teams can see how a product will actually look to customers when it is on display in the store, and discuss issues and improvements collectively on site. We have always understood the concept of creating cross-sectional teams for specific projects and products, but now we are able to physically bring those teams together. That is a big change. Our work flow is now

product-focused and customer-centric.

**Q3: On March 24, you launched your new e-commerce operation, which you described as the world's biggest UNIQLO store. The online store offers a broader range of sizes and products, but has it changed customer purchasing habits in any way? Also, what type of online products and services are you planning to develop going forward?**

**A: CEO Yanai** – I believe online and physical store business use different methods to retail products but they are all part of the same operation. The best way to operate the business is to ensure that our e-commerce operation and physical store network complement each other. In the company, we talk about e-business coming with the biggest warehouse in the world. While we did experience some teething issues with our e-business in the first half of fiscal 2017, I want to expand that operation by two or three times in the near future.

Our e-business currently offers a broader range of sizes and enables customers to pick up their purchases at their local convenience store or UNIQLO store. People can now buy goods via smartphone or in our stores so we have more opportunity to connect and interact directly with customers. I know we can become No.1 in the business if we build frameworks that embrace the IoT era and continue to make truly great clothes.

**Q4: I understand you offer the exact same products worldwide. However, you are also selling hijab and other items in Southeast Asia to satisfy local community needs. How do you strike a balance between global-standard products and localization?**

**A: CEO Yanai** – I believe global is local, local is global. In this process, you establish a global presence first and then adapt to local conditions. If local tradition and history lends itself to the creation of some really good product ideas, then I am keen to carve those out. Clothes essentially derive from culture. Unfortunately, women in Islamic regions only really get to wear indigenous dress. So offering them Western European casualwear is no different than people trying to sell western clothing to Japanese women in the days when they only wore kimono. In these situations, it is much better to offer people products that suit their individual needs and culture, and not just in emerging economies. In developed countries like France for instance, French fashion is steeped in French culture and history, and America is well known for its West Coast casualwear and sportswear. Global brands like us should be able to select the best essence of individual regions and develop them worldwide so we can build a product range that combines both global and local flavor. This is possible in today's world because we can convey information instantly across the globe.

**Q5: You seem to have already reviewed a large number of Group-wide business cost structures. Is there room for further improvements and savings in the second half of fiscal 2017 or further out?**

**A: CFO Okazaki** – Reforming business cost structures is a medium-term project. We are starting

to see some of the positive effects but we are only half way through the process, maybe even less than that. I believe we can make huge improvements by ensuring more appropriate inventory levels, and, as we continue to digitalize our marketing, I believe we will be able to use funds more effectively to boost cost-benefit performance. Ensuring appropriate inventory will dramatically change the way our stores and our in-store staff operate. These transformations are not just about cutting costs, they are about changing the fundamental structure of our business, so we want to plan and implement them carefully over the medium term.

**Q6: You mentioned that the Southeast Asian region, including Indonesia, Thailand, the Philippines and Malaysia, generated especially strong sales growth within the UNIQLO International segment, but is it possible to build a significant business in an area where there is much less demand for winter clothing compared to other parts of the world?**

**A: CEO Yanai** – We have large numbers of customers in Southeast Asia who have only just moved into the middle-income bracket and still do not have a lot of clothes. Having said that, they don't have enough disposable income to buy luxury brands. People in these areas are very keen to buy good quality products from good brands. UNIQLO is well known in the region for high-quality products so demand for our clothing is high. Right now, people in Southeast Asia want to wear good clothes and enjoy a good family life so our brand and our business has great potential there.

**Q7: You said you intend to open 30 new stores in Southeast Asia in fiscal 2017, but what are your new-store plans for that region for fiscal 2018 and beyond?**

**A: CEO Yanai** – Ideally, I would like to open roughly 100 new stores each year, but I think between 50 and 60 is a more practical level.

**Q8: This is a question about GU. Previously, GU CEO Osamu Yunoki said that the brand needed to focus more resources on expanding menswear and children's clothing. What do you consider to be the most immediate challenges for GU?**

**A: CEO Yanai** – Once we have got a full GU business model up and running, I am convinced the brand will sell well internationally. At the moment, GU doesn't have enough solid trendy products that can be sold globally on a mass scale. We have to focus on boosting GU's ability to produce mass volumes of trend items effectively and swiftly. Clothes only become clothes when they can help form dress or costume. In other words, I am convinced GU will be welcomed anywhere in the world as a brand once it has the power to help create style and coordinated outfits, and it understands the true nature of clothes. Our R&D centers are not designed exclusively for UNIQLO, so GU will also be able to use them going forward as well. We will continue to explore and refine exactly how GU makes clothes.

**Q9: The transformation of your distribution systems seems to have resulted in**

**higher-than-expected business costs in the first half. Is this likely to continue into the second half and next fiscal year?**

**A: CFO Okazaki** – There are two broad reasons why distribution costs have been increasing. First, while we have been transforming our logistics systems, we have had to run two warehousing systems side by side. We have been conducting the warehouse operation in-house which has, at times, led to some confusion and resulted in lower profitability and higher costs. Second, distribution costs have been rising in general. We expect the upward push from our structural changes will persist through the second half of fiscal 2017 but will settle down after that. The logistical overhaul is designed to boost productivity so we will be focusing on improving productivity in the future and returning distribution costs over the medium term to levels experienced prior to the global rise in the cost of distribution.