

Analysts' Meeting Q&A

Business Results for Fiscal 2018 First Half (September 2017 to February 2018)

Below are questions from our analysts' meeting concerning business results for the first half of FY2018. The answers have been edited for clarity.

Q1: Mr. Yanai mentioned the new business models for becoming a digital consumer retail company and a business that only makes, transports and sells what is necessary. In building these models, is Fast Retailing already looking to cooperate with global IT-related companies such as Google and Apple?

A1: Tadashi Yanai, Chairman, President and CEO – I can't give you specific company names, but we are currently working together with nearly all global IT companies. When we talk about global cooperation, we are not talking about working only with digital companies but working with the world's best partners in all areas. We seek to form global partnerships around the world with the best designers, the best companies in corporate structure creation, the best companies in distribution, and many more. Our company is passionate about developing global operations, so we could only work with other global companies, or companies with the desire and potential to develop global operations. We expect to announce several new things going forward, so you definitely have something to look forward to.

Q2: There is always a risk involved when working with other companies, so do you intend to start small rather than go for a large-volume project?

A2: CEO Yanai – The same things sell well all over the world. Our HEATTECH range boasts sales of over 1.2 billion units worldwide, with over 100 million items sold in the past year alone. I think we sell the most cashmere items in the world, and I believe we could be the world's top-selling retailer of jeans as well. Rather than focus on products that we can start selling gradually, we focus on products that can be sold worldwide, are highly finished and can be offered at a reasonable price. Take jeans for instance, I believe we can make the best products by working together with world-leading partners such as Japan's Kaihara denim manufacturer and synthetic fiber manufacturer Toray Industries.

Q3: In Greater China, you are working towards your announced five-year targets for revenue of 1 trillion yen and operating profit of 200 billion yen. Does this mean you are targeting store openings in second- and third-grade cities? You have also been working to cut costs by reviewing items such as distribution costs and store rents. One year has passed since SG&A ratio started to improve. Is there room for further improvement?

A3: CEO Yanai – Mainland China's second- and third-grade cities in terms of size still have populations of over 1 million residents. I think there are over 200 such cities in Mainland China with populations exceeding 1 million. When the time comes, I think we will be able to open stores in cities with populations under 1 million as well. We currently have a network of 600 stores and are

intending to expand that network to 1,000 stores over the next few years. Ultimately, I expect to develop a Greater China network of approximately 3,000 stores.

A3: Takeshi Okazaki, Group Executive Vice President & CFO – Same-store sales growth in Mainland China is extremely solid and inventory efficiency is steadily improving thanks to better product mixes and inventory makeup. We are also seeing the benefit of our consistent reform of purchasing structures and the steady introduction of new purchasing processes into the Mainland China operation. In fact, we are now introducing best practices and methods that resulted from this purchasing process review in Mainland China into UNIQLO operations in Japan and other locations. We are seeing dramatic improvements in profitability in Mainland China partly because store profitability is rising in line with rising same-store sales, and partly because overall profits are rising as the store network expands. The Mainland China operation is currently experiencing a virtuous cycle. I can't give you any concrete figures on whether this means there is more room for improving SG&A ratio, or how far it will go, but I can say that we haven't reached saturation point yet and there is still plenty of room for improvement.

Q4: I think Mr. Wakabayashi's presentation on a globally expanding UNIQLO operation was extremely interesting. When do you intend to fully introduce the sophisticated global retail plan that you that you mentioned, or have you already been gradually introducing it since you launched the Ariake Office in February 2017? What issues are you facing? I suspect it is difficult for everyone to share information and everyone to be involved in the decision-making process.

A4: Takahiro Wakabayashi, Group Executive Vice President – There is no doubt that the move to the Ariake office was a huge starting point. The ideas I talked about must be implemented as a matter of course, but the move to the Ariake office certainly provided a strong incentive as well the right practical environment to realize this new work style. Naturally, we face many issues but the more involved we become in the global operation, the more work I realize we have to do to fully satisfy customer expectations. If we apply ourselves to this challenge to boost customer satisfaction by fulfilling the needs of customers in all UNIQLO markets around the world, I am confident that we will be able to expand our business and grow our profits.

The team of people who make daily decisions based on local conditions is extremely important. I believe we can improve the quality of our managers and our entire staff by employing, nurturing and training management personnel, and providing people with the opportunity to acquire practical on-the-job business experience. Nurturing talented managers and staff is one of our most important management challenges.