

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

### **Business Results for Fiscal 2018 Third Quarter (September 2017 to May 2018)**

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

**Q1: Can you tell us exactly how UNIQLO managed to achieve double-digit growth in same-store sales in Mainland China in the third quarter from March to May 2018, given that some Japanese retailers are seeing a slowdown in sales at their Chinese operations?**

**A1: Takeshi Okazaki, Group Executive Vice President & CFO** – Our UNIQLO operation in Mainland China is strong, primarily because we are managing to establish UNIQLO as a successful LifeWear brand. I can't speak for the overall market, but we are experiencing firm demand, which we have been able to capture. We are increasingly confident about our Chinese operation.

**Q2: UNIQLO's profitability in Mainland China has improved. Is there room for further improvement?**

**A2: CFO Okazaki** – Part of the improvement in UNIQLO Mainland China profitability so far in FY2018 has been due to an overhaul of business cost structures, and part has been due to strong sales. I think we can expect to see further improvements in the gross profit margin, better business cost ratios on the back of more efficient inventory, and increased benefits from expanding operational scale. I don't know if it will continue at the same pace, but I do think we will see further improvement in profitability.

**Q3: Summer inventory at UNIQLO Japan is slightly high. Is this likely to affect the segment's performance in FY2019? Also, are UNIQLO Japan exchange rates likely to start weakening from roughly next spring, resulting in lower procurement costs?**

**A3: CFO Okazaki** – Summer inventory will not impact on next year's performance. Inventory is slightly inflated, so we are working hard to ensure that any excess inventory is firmly absorbed during the current business year. However, we tend to hold SKU of core LifeWear products until the end of the season because we don't want to risk any shortages of those items. Regarding exchange rates, I agree with you as regards your assessment of the likely movement in our exchange rates, and their impact on our procurements costs.

**Q4: Do you have an update on the Ariake Project?**

**A4: CFO Okazaki** – The Ariake Project is progressing steadily. Our first task is to revolutionize the way we interact with customers, uniting our real and online stores, and communicating directly with customers digitally to collect customer information that can be channeled into effective product development. The second task involves revolutionizing our supply chain. To strengthen our product creation functions, all staff involved in creating products such as merchandisers and R&D need to work together in the open-plan Ariake office, and develop products while exchanging information on

a global scale. The third task involves successfully coordinating and linking production, retail and distribution. This means using retail plans to create precise production and distribution plans that can be coordinated in a flexible and agile manner.

Broadly speaking, we are pursuing these three areas. We are making steady progress on the first challenge of linking real and virtual stores. For instance, the launch our new free in-store pickup of online orders has encouraged many more people to take up this service. This is not only contributing to higher online sales, but also helping attract new online customers. We have noted clear synergy benefits as customers who come into stores to pick up their online orders do also buy other items from the store, and we are sensing the successful merging of our real and virtual retail networks. We are also collecting customer information not just as numerical data but also by absorbing real customer opinions on real products collected via online apps, which we then use to develop or improve actual products.

On the second challenge concerning product creation frameworks, we are increasing inter-departmental coordination by revolutionizing work styles at the Ariake office. For instance, we are forming a holistic strategy by linking marketing and merchandising functions in a way that enables us to determine from the outset what functional appeal to apply to which products to increase sales, and how to tap latent demand. Once we have established this particular framework as an effective system, we will be able to target broader coordination encompassing more people and functions.

We have also been working on the third challenge of coordinating production, retail and distribution since the 2017 Fall Winter season, and are now increasingly able to visualize problems and determine more accurate responses when issues arise. We are still only half way there, but we are already generating steady results.

The UNIQLO operation is making steady progress on the overall Ariake Project, but the GU operation, while sharing concepts and mindsets, has not pursued all areas of the project with as much vigor. Now, the plan is to start changing working patterns and revolutionizing business at GU. We believe we can move the GU operation forward by implementing frameworks formed at UNIQLO.

**Q5: UNIQLO International appears to be doing well in all geographical areas. What are your store-opening plans for FY2019?**

**A5: CFO Okazaki** – Taking the Asian markets first, as we have already announced, we are planning to open our first store in India in fall 2019. This is a big step. We also want to gradually expand into other Southeast Asian markets when the opportunity emerges. In Europe, we have announced plans to open our first stores in Sweden and the Netherlands. In terms of overall new store numbers, we want to maintain or slightly accelerate the current pace of new store openings, and we intend to continue opening 100 new stores each year in the Greater China region.

**Q6: You have had great success with your cost-cutting drive to date, but will you be able to continue cutting costs in FY2019?**

**A6: CFO Okazaki** – I think the trend of improving cost efficiencies will continue. This is not fueled simply by reducing costs, but is due largely to our successful strategy of refusing to hold more inventory than necessary, to transport anything that is not necessary, or to handle anything in our stores that is not necessary. Looking at it the other way around, if you move unnecessary inventory and place it in stores, in-store personnel and distribution cost ratios will increase. I believe the cost efficiencies gained by carefully changing and rebuilding the very backbone of our business have played a big part here. There is still more room for improvement and the Ariake Project is focused on doing just that, so I think we will see further cost benefits going forward.

Naturally, we will also continue to cut costs by transforming our purchasing methods, and further revolutionizing our work styles. We want to improve personnel expense ratios by standardizing and automating labor-intensive and repetitive tasks. There are many more things we can do.

**Q7: Can you tell us more about the current UNIQLO USA business?**

**A7: CFO Okazaki** – We are aware of many poor elements in our past US strategy. We were too quick to open stores without sufficiently establishing our brand or training a suitable workforce. As result, we opened stores in inappropriate locations, got behind on our store-manager training, and created a large loss-making business structure. I believe we have now rectified these problems by establishing an appropriate headquarters, building a strong distribution network, and improving staff training, and I think we will now, finally, be able to create a profitable business by FY2019. Success in the US market depends on whether you can expand sales or not, and that depends on developing merchandising to suit the US market (product mix), releasing information and news that the US market can relate to (advertising), and effective branding.

**Q8: Can you tell us more about your e-commerce strategy for UNIQLO China? I think online sales are strong but what about in-store sales?**

**A9: CFO Okazaki** – Both online sales and physical-store sales in Mainland China are strong, and same-store sales are showing fast growth. Our CEO of Greater China, Ning Pan, has previously explained his methods for strengthening the operation's online-to-offline (O2O) strategy. The business model of attracting online customers into physical stores to help expand store sales is more advanced in our Chinese operation than it is in Japan. In fact, the Chinese operation is proving extremely successful at fusing real and virtual store operations.

**Q9: UNIQLO Mainland China benefited from favorable weather in the first half of FY2018, and same-store sales growth appears to have accelerated in the third quarter. Is that due to improved brand awareness and well-timed releases of product news and information?**

**A9: CFO Okazaki** – Yes, it is. UNIQLO is now broadly recognized as a LifeWear brand and sales of UT print T-shirts were extremely strong after we introduced popular contents that Chinese

customers really liked. So, I think it is fair to say that the timely release of fresh, popular items has contributed to strong Mainland China sales, especially in the third quarter.

**Q10: Your business benefited from a period of very cold weather around the world in fall 2017. Could demand decline if we don't experience a similar cold spell in fall winter 2018, or has progress on your digitalization strategy made your business more resistant to weather-related factors?**

**A10: CFO Okazaki** – Our business did benefit from weather-related factors last fall winter, but we believe we can match that strong performance this coming fall winter, thanks to progress on our Ariake Project. We have plenty of scope to secure firm profit margins through the appropriate management of inventory that accurately predicts demand. Basically, we are preparing to further improve our corporate performance in the coming business year.