

## Analysts' Meeting Q&A

### Business Results for Fiscal 2018 (September 2017 to August 2018)

Below are questions from our analysts' meeting concerning business results for FY2018, or the twelve months through August 31, 2018. The answers have been edited for clarity.

**Q1: To illustrate your supply-chain transformation, can you give us some concrete examples of product creation processes that you've changed, such as a new timing for product volume forecasts, or a new way of utilizing online sales data?**

**A1: Takuya Jimbo, Group Senior Vice President** – On the topic of production process innovation, we try to prepare and share our production plans with partner factories, so that we cause as little disruption to production volumes as possible. In that sense, the first plan is extremely important, so, as I said earlier in my presentation, we are working to ensure that plan is as accurate as possible using initiatives designed together with Google and Accenture.

We are also starting to investigate ways of innovating production technology. Instead of procuring materials after receiving orders, we are asking production partner factories to source materials in advance, and we are manufacturing clothing volumes to a high degree of accuracy. Visualizing production process volumes is very important, so we have recently set up two new bodies called the Management Cockpit and the SCM Information Center. These bodies are able to gather and visualize all information across the entire supply chain, detect abnormal data, and check if there are any issues. We will draw all of these initiatives together as we continue to reform our entire supply chain.

**Q2: Your performance in China and Southeast Asia appeared to be strong. What impact has the slowdown in Chinese consumption had on UNIQLO operations, and what initiatives are you taking in China and Southeast Asia?**

**A2: Tadashi Yanai, Chairman, President and CEO** – I really wish you could visit some of the major cities in China and Southeast Asia, see the situation on the streets, and witness people's zeal for life. Every week, I watch videos outlining potential locations for new stores, and I can say that our store development in China and Southeast Asia is progressing extremely well. There may be some economic and trade-related issues, but consumption itself is not waning. Southeast Asia and China are both developing regions with consumers who still don't possess many things, and many people who want to enjoy new experiences and buy new things. I don't think we need to be pessimistic about consumption in these areas. I believe that the world's biggest and best economic growth center lies in the Asian region extending from China through to India. We want to expand our store network and customer base in that area. I also think it is important for us to pursue strong branding activities in those areas as well.

**Q3: You have adjusted the timing for recording of inventory to reflect changes in your contracts with trading companies, but does this have anything to do with your supply-chain reform?**

**A3: Takeshi Okazaki, Group Executive Vice President & CFO** – Up until now, we recorded stock as inventory when it left the warehouse in the retail country, but now we record stock as inventory when it enters the retail country. The risk remains the same because we used to pledge to sell off all the inventory in warehouses in the retail country, but this new system makes things clearer. I think this new procedure

will encourage us to control inventory more vigorously going forward.

**Q4: Your IT investment is increasing. Is this in relation to your supply-chain reform?**

**A4: Group SVP Jimbo** – We are injecting IT investment in many different areas. As we explained earlier, we are developing algorithms, and progressing systems development for supporting the supply chain itself. We are also working on changes to our front-end commerce platform. We are entering a phase of rising IT investment as we pursue these reforms. The more accurate understanding would be to consider the need for higher levels of IT investment to secure favorable progress for our overall Ariake Project transformation drive, rather than think of IT investment in the supply chain. We will continue IT investment, but this investment will also help improve existing frameworks and reduce business costs, so that does not mean that IT-related expenses are going to swell dramatically.

**Q5: You said that India, like China, is an important market for Fast Retailing, but how can you apply your successful experience in China and Southeast Asia in India? Do you think you will have to take a different approach?**

**A5: CEO Yanai** – You might find this hard to believe, but our strongest selling items in the hot Southeast Asian region are HEATTECH and Ultra Light Down, and similar items sell well at similar times in all countries. In fact, that is the case for nearly all products in all regions. However, Indian culture is different, and women in particular often wear native dress, so we won't be able to generate strong sales if we don't offer a genuine range of native costume items. In addition, people wear different styles of clothing depending on their religion. Western and Eastern consumers prefer different skirt lengths, and individual Oriental countries also have their own preferences, so it is important to probe these differences and develop products accordingly.

**Q6: This is a question for Mr. Jimbo. Can you share with us a few of your most important KPI in relation to supply-chain reform? What degree of improvement are you aiming for, and over what timeframe?**

**A6: Group SVP Jimbo** – We have several important KPI but, for the whole supply chain, one key variable is the total amount and volume of inventory. This might sound extreme, but we are currently implementing measures to half inventory levels on some products. As we mentioned earlier in the presentation, we currently have a mix of surplus inventory and insufficient inventory. We don't have enough of the products that customers want, and we have large volumes of surplus inventory of poor-selling products sitting in our warehouses and stores, so we are looking to make some dramatic improvements.

If we are able to increase accuracy and maintain appropriate inventory levels for popular products, we won't always have to focus on inventory rundowns, and can improve our gross profit margin. Right now, we are offloading inventory with discounting that is detrimental to profit margins. By creating a new business format that doesn't rely on discounting, we will be able to improve our profit margins.

From an overall supply-chain perspective, inventory levels and profit margins are important but, on the flipside, we must also think about eradicating product shortages. We have made this as our target, and will seek improvements going forward.

**Q7: When will you start to see the benefits of supply-chain reform show through in your financial data?**

**A7: Group SVP Jimbo** – Things are already underway and so I would like to be able to pinpoint clear progress within the broader reform process over the coming year. In terms of data, one year into the process, I think we will see some clear improvement in gross profit and a reduction in inventory volumes.

**Q8: Can you explain your fundamental approach and role-sharing in relation to recent executive personnel announcements?**

**A8: CEO Yanai** – I am human and have reached the age where we have to start preparing for any eventuality. As you can see, Mr. Okazaki and Mr. Jimbo are strong examples of our excellent management group, so I have absolutely no concerns on the management front. Yes, I have nominated our CFO, Mr. Takeshi Okazaki, and my two sons as candidates for company directors. However, my two sons will not take charge of the company. I want to completely separate the Board's corporate governance, and practical management execution. If something were to happen to me, I want my sons to oversee corporate governance, and that is why we nominated them to the Board. This decision is designed to make the company even more stable. I believe stable corporate governance and stable business execution is vital for our company, and so I have put this system in place to cover all eventualities. This does not mean that I am going to retire. Please understand and accept that I come to work every day intending to keep on managing the company, and I remain as committed as ever to securing our company's wellbeing and future growth.