

## Analysts' Meeting Q&A

### Business Results for Fiscal 2019 First Half (September 2018 to February 2019)

Below are questions from our analysts' meeting concerning business results for the first half of FY2019, or the six months through February 28, 2019. The answers have been edited for clarity.

**Q1: UNIQLO has been able to continue to expand favorably in China despite slower economic conditions, a warm winter and various other factors, but how much growth potential do you think UNIQLO has left in China? Are you sufficiently competitive to be able to open stores in third-tier or fourth-tier cities?**

**A1: Group Executive Vice President & Greater China CEO Ning Pan** – In terms of future store opening plans, first, there is still plenty of potential to deepen our presence in first-tier cities. For instance, we currently have 76 stores in Shanghai, but, given the fact that Shanghai's population is twice that of Tokyo, we want to expand our store network in Shanghai to 100 stores going forward.

In addition, China's second and third-tier cities hold huge potential. As I explained in my presentation, the Chinese apparel market totaled approximately 50 trillion yen in 2018, and even the cities that don't make the top 100 in terms of contribution to Chinese GDP still have populations of several hundred million people, so they are a considerable size. This is an amazing market with huge potential. Furthermore, for example, in practice we have found that annual sales from the stores we opened in Kunming in the Southwestern province of Yunnan near the border with Vietnam are similar to annual sales for our Shanghai stores. Why? Because UNIQLO earns strong support from customers everywhere for its LifeWear concept, and its high-quality, comfortable clothes that are suitable for multiple situations and essential to everyday living. UNIQLO also offers a level of service that prioritizes customers far more than competitors do. Thanks to our attentive staff training, our service is completely different to other companies, and that is a key strength.

**Q2: Regarding the China business, your decision to provision for online-to-offline (O2O) e-commerce orders in instore inventory is extremely interesting. Does the extent of provisioning differ for different cities within China?**

**A2: Greater China CEO Pan** – Our operations are ahead of other companies in the sense that our business is accelerating physical new store openings and developing a coordinated e-commerce operation alongside that at the same time. You may have heard of the annual Singles Day event (also called Double 11 because it is held on November 11) started by China's world-famous Alibaba international e-commerce conglomerate. Fast Retailing boasts China's No.1 sales slot in the fashion retail industry on Singles Day. The event also attracts customers to our physical stores, with long queues forming in the mornings outside stores on event day. Today, we are seeing more and more customers in China wanting to come into our stores to see, touch and try on products before they buy them. I want to continue growing our company and widening

the definitive gap between ourselves and other competitors by proactively opening more new stores and pressing ahead with our company policy of promoting local store management by building a system that helps each and every store steadily increase its profits.

As for your specific question about servicing O2O orders, over 90% of our stores provide for online orders in their store inventory. The only stores that don't do this are UNIQLO outlets housed within department stores.

**Q3: This is a question for Mr. Yanai. You have been reforming your supply chain, but how do you view the first-half result from this perspective? You did face the warm winter effect, but I still get the impression you produced more products than you needed to. Could you have been a little stricter here?**

**A3: Tadashi Yanai, Chairman, President and CEO** – As you say, we could have been a bit stricter. Following the extremely strong performance and higher-than-expected sales in the previous year, we anticipated something similar this year and produced more. However, the warm temperature in November dampened sales of warm clothing, and we didn't adjust as well as we could have done to that outcome. Having said that, we believe our strength lies in the fact that we always have clothing stock, and customers can always buy the products on offer in any store that they go into. We still have lots of issues to solve, and we have to work harder to increase the number of even more attractive products on offer.

In China, we are seeing a strong online-to-offline trend emerging right now. Online companies are buying up offline retail industries. We have expanded in the opposite direction, moving from retail into e-commerce. However, in the future, customers will not be looking at whether a company is e-commerce or retail based. Instead, they will want to buy from the easiest, most convenient place that sells the best products. That is what we are aiming for.

**Q4: Is your digital strategy and acceleration of e-commerce operations in China more advanced compared to other UNIQLO operations around the world? Are you wanting to expand the Greater China example across other UNIQLO operations?**

**A4: CEO Yanai** – I think China is the most advanced market in the world. In the apparel industry, I think operations like ours that have both a physical and online presence are much stronger than those that only have online operations. So yes, we are thinking of applying our practices in China to the rest of our global operations, and mimicking our Chinese marketing, and especially branding, which has been particularly successful there. Having said that, we are also planning to push ahead on building the biggest stores in the best global locations.

**Q5: In practice, how do you go about sharing information within the company to help apply successful China practices across global operations?**

**A5: CEO Yanai** – Project managers for similar and different functions around the world are in touch with each other nearly every day. They participate in discussions either online, via video conferencing, or by directly visiting a particular country to ensure any lessons or improvements

are swiftly implemented.

**Q6: You say that you are making progress on revolutionizing your distribution systems through the Ariake Project, but, in addition to the Ariake warehouse, how is the development of other distribution warehouses and centers progressing? Are you also considering tying up with other new partners?**

**A6: CEO Yanai** – I want to upgrade all our distribution centers. That doesn't mean simply automating them, but creating a distribution center and information system that will enable us to efficiently deliver optimum products at the lowest cost in all area. This is the era of robotics and AI, so, if possible, I would like to work together with expert companies in these fields to help progress these aims.

**Q7: Is the profit margin of online operations higher than physical stores in Greater China? Also, your China e-commerce operation uses both T-mall and your own online website, but are you planning to further develop both sites in tandem?**

**A7: Greater China CEO Pan** – In terms of profitability, both our physical stores and e-commerce operation are performing strongly. However, the e-commerce operation is the more profitable of the two. In terms of online sales channels, Alibaba and Tencent are extremely important strategic partner companies for us. While we have strong relationships with both of these companies, we have been involved with the Alibaba e-commerce platform for a longer period, and the platform is extremely well known. At the same time, we have launched our own online sales site in coordination with the WeChat mini program (an app within an app), and we see potential to expand those links with the WeChat mini program as well.

**Q8: When Mr. Pan last made a presentation at the corporate results announcement 18 months ago, you released your medium-term plan to target sales of 1 trillion yen and operating profit of 200 billion yen over the next five years. Is that achievable?**

**A8: Greater China CEO Pan** – We are looking first to expand sales to 1 trillion yen, so please watch out for that.