

Business Results for Fiscal 2019 (September 2018 to August 2019)

Below are questions from our analysts' meeting concerning business results for FY2019, or the twelve months through August 31, 2019. The answers have been edited for clarity.

Q1: UNIQLO opened its first store in India but I think the Indian market might prove harder to penetrate than others partly due to the requirement for foreign companies to maintain a fixed ratio of locally produced products and also the fact that many people like to wear traditional Indian clothing. Mr. Yanai, can you tell your expectations for the Indian market over the next three to five years? I have also read that you are retailing clothing produced in cooperation with local designers. What product-related measures are you taking to ensure an appropriate lineup in India?

A: Tadashi Yanai, Chairman, President and CEO – First, I believe the Indian market has huge potential. While there is a large disparity of wealth, we have also seen the emergence of a middle-income population in recent times. With a population of 1.3 billion people, even if the middle- and upper-income population constituted only 10% of the total, we should be able to achieve similar sales in India as in Japan. In addition, the country has many young people, who are starting to take on active roles outside India, so the country has thriving links with other parts of the world.

We are not going to India just to sell clothes. Instead, I want us to become a company that produces, distributes and retails clothes in that market. I think that is what the Indian people expect of us as well. I intend to take a ten-year view rather than consider things over a three or five-year horizon. However, each state in India has different regulations, so we plan to focus new store openings just in the Delhi region at first.

The textile and retail industries both have long histories in India but unfortunately these industries have not yet been modernized. If possible, we would like to help progress modernization in India. I want to build our best global stores and sell our best global products in India's UNIQLO stores. We are already selling clothes designed by Indians. We first need to learn more about India through these kind of initiatives. In terms of restrictions due to rules for foreign investors, these haven't really affected us. On the contrary, we are receiving many requests to open stores as quickly as possible. I feel there are many opportunities in India, and I hope Japanese companies will be able to open stores there as well.

Q: This is a question about e-commerce. How are you using the information collected through e-commerce in product development or production volume planning for example, and what is

different about these systems compared to a few years ago?

A1: Masanobu Kusaka, Group Senior Vice President – Our drive to use the information gained through our e-commerce operation to achieve better product planning and product development has changed considerably over the past year or two. In order to expand the e-commerce operation, we have to offer the products that customers want, so having serious discussions about products with the relevant departments is part of our everyday work, but it is not as if we are on opposing sides. The departments developing and making our products also want to grasp an accurate picture of customer needs, so we work together as one cooperating department rather than separate entities. To give you an example, in e-commerce, we can display products before they go on sale and record the ones that customers most like. We then use that pre-retail data in our daily work when deciding whether to issue early orders for additional production, revise sales plans, or adjust plans for dispatching products to stores.

Q: How have your product plans for 2020 Fall Winter changed compared to the previous year as you pursue your Ariake Project objective for more accurate product planning? I think you experienced excess inventories in 2019 Fall Winter on the back of the warm winter. What actual product planning improvements are you pursuing for this Fall Winter season and beyond?

A3: Takeshi Okazaki, Group Executive Vice President & CFO – In terms of specific changes, we have been fairly strongly focused on reducing lead times, and I think we have been able to encourage more order submissions before the season starts. We have been closely following the launch of 2020 Fall Winter ranges and have gotten better at submitting additional production orders compared to last year. Why not visit some stores to see that for yourself firsthand? I think you will find that our stores are able to deliver the products that consumers want better than ever before. We intend to continue with these efforts and make further improvements going forward.

Q: I think UNIQLO International is suffering the short-term impact of product boycotts in South Korea, demonstrations in Hong Kong, and other political and geopolitical risks. How will this change the medium-term strategy for your international operations.

A: CFO Okazaki – As I described in my presentation, the situation in South Korea from July onwards has continued to be very severe. We have been obliged to assume a large drop in both revenue and profit from South Korea in FY2020 and this has been incorporated into our business plan. Local demonstrations in Hong Kong are growing in severity and we intend to keep a close watch on developments there. Naturally, we incorporate all these factors when formulating our overall business plans. However, the recent events in South Korea and Hong Kong will have no impact whatsoever on

our medium-term stance towards those markets. We consider both markets to be very important, and we intend to continue to do everything within our power to serve customers there. That stance has not changed at all.

Q: You are predicting a fall in the UNIQLO International gross profit margin for FY2020. Is this due to the South Korea and Hong Kong effect, or are there other factors at work here such as pricing policy, etc.?

A: CFO Okazaki – We consider all factors when compiling our overall forecasts.

Q: You use a third-party site for your e-commerce operation in Mainland China. Will you be able to use third-party sites in other markets outside China? I also understand that the initial investment in the Japanese e-commerce operation was high rendering it not very profitable. Is that profitability improving now?

A: Group SVP Kusaka – We intend to continue using third-party sites for our e-commerce operation in Mainland China. As for other markets, we are considering a range of possibilities regarding whether to use other companies' e-commerce platforms or not, but we have not formed any concrete plans at this stage.

Regarding your question about the profitability of our e-commerce operation in Japan, as you pointed out, the initial investment required to launch our automated Ariake warehouse was extremely heavy and that subsequently weighed on profits. However, now that sales have started to pick up and our automated Ariake warehouse has begun operating in earnest, we are seeing incremental improvements in the profitability of our Japan e-commerce operation. I expect our physical stores and e-commerce operation will achieve the same level of profitability in the near future. On a global basis, our e-commerce operations are already achieving a comparable level of profitability as physical stores, and I believe we will gradually achieve a similar situation in Japan as well.