

January 9, 2020

Fast Retailing Co., Ltd.

## **Business Results for FY 2020 First Quarter (September to November 2019)**

Below are questions from our analysts' meeting concerning business results for the first quarter of FY2020, or the three months through November 30, 2019. The answers have been edited for clarity.

**Q: Is the situation in South Korea still extremely tough? You have revised down your full-year consolidated estimates, but how large an operating loss do you expect South Korea to report in FY2020?**

**Takeshi Okazaki, Member of the Board, Group Executive Vice President & CFO:** The situation in South Korea remains extremely severe and the poor sales trend that started last July is still continuing. We are now preparing for South Korea to report significant falls in full-year revenue and profit, and for the operation to suffer a full-year operating loss. I don't expect the percentage decline in year-on-year profit will extend into triple digits, but it will likely be in the high double digits. The fact that profit levels have always been extremely high in South Korea up until last year will likely exacerbate the year-on-year reduction in FY2020 profit.

**Q: Are you sensing any improvement in sales trends or customer psychology at UNIQLO South Korea?**

**CFO Okazaki:** It goes in waves, but broadly speaking we have not seen any significant change. For us, we are focusing on showing the Korean market and customers that we conduct an earnest and serious business.

**Q: Was the significant improvement in UNIQLO Japan's first-quarter gross profit margin due only to the impact of an appreciation in the yen exchange rate for merchandise purchasing or, given the fact that end-November inventories also declined, was it also due to better inventory management through your Ariake Project business transformation efforts?**

**CFO Okazaki:** In terms of overall inventory management, we are able to better control inventory having strengthened the management of production order progress and started adjusting prices early when necessary. UNIQLO Japan revenue fell short of plan due to the warm winter weather, so we are not entirely satisfied, but I do think we were able to astutely control inventory. However, one issue that we have been seeking to address through the Ariake Project is how to release newsworthy products that can sell well even during warm winters, so we need to reflect hard on the fact that we witnessed a

similar fall in revenue to the previous year on the same warm-winter effect and do more to remedy that.

**Q: You said that while UNIQLO same-store sales increased overall in the first quarter in Mainland China, sales of cold-weather clothing were sluggish. Has there been any change in overall sales trends in that market?**

**CFO Okazaki:** Mainland China and Japan both experienced persistently warm weather during the first quarter, which dampened sales of cold-weather clothing. However, we were able to make adjustments in our product mixes to suit the Chinese market and still generate single-figure growth in same-store sales. Naturally, we were not satisfied with that level, but we don't think it suggests any slowing in our pace of growth in that market.

**Q: Moving back to UNIQLO South Korea, if you do a back calculation from non-controlling interests, you can suppose a reduction in operating profit of over 15.0 billion yen in the first quarter alone. Is that thinking correct?**

**CFO Okazaki:** I can't give you any specific figures on the South Korean operation, but your thinking is correct.

**Q: Given the decline in inventories at the end of the first quarter, do you consider your current inventory levels to be healthy? Based on these inventory levels, do you intend to conduct stronger discounting in the second quarter?**

**CFO Okazaki:** Inventories were lower at the end of November, so we have healthy levels of Summer and Fall inventory. However, UNIQLO Japan same-store sales also declined in December to a level that was below plan. This will mean we are likely to see a slight excess in Winter inventory levels. We will work hard to sell off all the items that need to be sold off, and will hold over core staple items as inventory and seek to run them down over time. The levels we are talking about here are certainly manageable without any significant problems.

**Q: I think the first quarter is traditionally the highest quarter in terms of sales at UNIQLO South Korea. Therefore, if you reported a loss in the first quarter, are you also likely to report losses in the remaining three quarters?**

**CFO Okazaki:** We are expecting South Korea to report a large full-year loss, but we do expect losses will start to shrink over the second half of the business year.

**Q: The decline in the UNIQLO International first-quarter gross profit margin was sharp. Should we view this as being due to a healthy adjustment in UNIQLO international inventory levels at the end of the first quarter? I thought UNIQLO International was more advanced in some aspects of inventory control than UNIQLO Japan, but how do you view the current situation in terms of inventories and gross profit?**

**CFO Okazaki:** The decline in UNIQLO International's gross profit margin was due to large contractions in margins from South Korea and Hong Kong, but there is no significant change in the overall operation. We adjusted prices earlier than last year so that is having a slight impact, but I am not concerned about UNIQLO International's gross profit margin overall. As regards inventories, we do have more Winter inventory than originally planned, but we are well equipped to manage this extent of higher inventory, so we are not especially concerned.

**Q: You explained that UNIQLO Japan offered a higher number of product items in certain areas in the first quarter. What future issues and improvements do you envisage for products and marketing strategy?**

**CFO Okazaki:** GU generated extremely strong sales in the first quarter despite the warm weather. This was not simply because GU focuses on fashion items but also because it successfully offered clothing that suited the immediate climate such as mediumweight outerwear. UNIQLO needs to do much better on this particular point going forward. However, you can't just increase the number of products and expect everything to be alright. We need to consider how to get the right balance going forward. The problem is clear, so we will prepare properly and instigate the appropriate countermeasures.