

Business Results for Fiscal 2020 (September 2019 to August 2020)

Below are questions from our analysts' meeting concerning business results for FY2020, or the twelve months through August 31, 2020. The answers have been edited for clarity.

Q: In your FY2021 business estimates, you forecast a record level of business profit of ¥265.0 billion, but what kind of internal discussions did you have to arrive at that figure?

A: Tadashi Yanai, Chairman, President and CEO – I had many discussions with the heads of our individual business segments and our CFO Takeshi Okazaki regarding our business estimates. I thought we needed to sell more and make more profit. If you don't set yourself high targets, you are not motivated to innovate. The situation we find ourselves in now presents a great opportunity for innovation. Some opportunities only emerge after various crises have taken place. I view these latest events as a sign of a changing era and the latest tough conditions as an opportunity. Please consider these FY2021 business forecasts as the minimum level I have asked people to achieve.

Q: In your FY2021 estimates, are you assuming that COVID-19 will be brought under control at the beginning of the second half of the business year from March to August 2021?

A: Takeshi Okazaki, Group Senior Executive Officer & CFO – First, our business management premise is based on the assumption that COVID-19 will continue to impact Europe, the United States, and some countries in Southeast Asia in the first half of FY2021 from September 2020 through February 2021. You can consider our business estimates for the second half from March to August 2021 to assume COVID-19 is under control at the beginning of that period.

In terms of our business estimates, our revenue forecasts are marginally more conservative compared to previous record levels, but we see great room for improvement on the profit front, so we do believe we can achieve a profit level that is similar to the record performance achieved in FY2019. While it would require a certain management approach, the actual profit figure attained will probably lie somewhere within the calculated range.

Q: The sales recovery in Greater China was fairly volatile month to month just after COVID-19 was brought under control, but is revenue now on a firmer upward trend in that region?

A: CFO Okazaki – Yes, sales are on a firm upward trend right now. While we can't say that COVID-19

has been completely stamped out in the East Asian markets of Mainland China and Japan, we can say that it is generating new types of demand. Consumer appetites have not weakened as they did during the state of emergency period in Japan. By contrast, customer visits to our stores in the United States and Europe are very low, so the situation is very different to that in Japan and Mainland China.

Q: Are there any items you have made more progress on due to the COVID-19 or maybe some issues that have come to light?

A: CEO Yanai– I believe COVID-19 has helped confirm that our LifeWear and Ariake Project concepts were indeed correct, clarify our position in the world and the direction we are headed, and formulate the backdrop for us to pursue that direction. As we formulate a clearer direction for driving our clothing concepts forward, we are also witnessing a shift from an era dominated by the United States and Europe to an Asian-centric era. That said, Western clothing was conceived in the United States and Europe and manufactured primarily in Asia. I don't believe national barriers exist in the business world. I think we must consider what we would do in times of extreme difficulty based on the assumption that there are no national barriers for individuals and companies around the world, and just get on and do it.

Q: In your business estimates for FY2021, you incorporate improvements in gross profit margin, inventory control, and SG&A expenses, but are there any areas in which you have boosted your capabilities or issues that have come to light as a result of COVID-19?

A: CFO Okazaki – We had already worked hard to build a firm base under our transformative Ariake Project, but this global coronavirus outbreak has fueled a high degree of cooperation and cohesion across the Group. A large proportion of our business costs are incurred through the transportation and retail of products, namely the selling, general and administrative costs related to our business. If you don't control these costs well, you can't improve cost efficiency ratios. Effective cost control requires all people, from those who plan products to those who sell those products in our stores and those who distribute finished products, to join forces and work together towards a single target. I think we have been able to polish this ability to a considerable extent in the recent tough environment and through our Ariake project. I think this will be a great help to us in terms of future cost control strategies. Also, all our staff are showing more interest in business expenses and thinking about cost efficiencies more than ever were before. We aim to use these changes to help ensure we generate a profit in FY2021 whatever happens.

Q: Can you tell us about changes to your product lines or merchandising in a COVID-19 environment? Also, what prompted your announcement to change your articles of

incorporation?

A: CEO Yanai – We have always restructured our company to suit the changing times and changed our products to suit our customers. That process has simply been accelerated by the coronavirus outbreak. I think actual globalization and digitalization have also accelerated as a result. Today, we live in a super information society and consumers are fiercely committed to buying brands and products that they truly trust. I think that is why our products and masks have sold so well, and I feel a huge sense of responsibility towards those who expect a lot from us.

Moreover, I think that you have to control the whole clothes-making process from end to end yourself in a digitalized world. If you control everything yourself, you get to work with many talented individuals and companies around the world. I think our world increasingly resembles that of high-tech companies and the changes to our articles of incorporation illustrate that evolving business environment.

A: CFO Okazaki – Our masks are a great example of how we have been in constant discussion with customers through our daily business operations and successfully turned customer expectations of UNIQLO into commercial products. AIRism sheets and HEATTECH blankets are some other products that are witnessing rising sales right now. These items illustrate how our ideas and customer opinions can be transformed into commercial products.

You should view the changes to our articles of incorporation as a way of better reflecting the current nature of our business operations. For example, some of our stores are currently selling fresh flowers, so we decided to clearly state that in our articles of incorporation. This doesn't mean we have decided to expand that area of business right now. However, our business coverage is likely to expand swiftly as we continue to respond directly to customer opinions and desires.