January 14, 2021

Fast Retailing Co., Ltd.

Business Results for Fiscal 2021 First Quarter (September to November 2020)

Below are questions from our analysts' meeting concerning business results for the first quarter of FY2021, or the three months through November 30, 2020. The answers have been edited for clarity.

Q: What is the background to the marked improvement in profitability seen from UNIQLO Japan and UNIQLO Greater China?

A: Takeshi Okazaki, Group Senior Executive Officer & CFO – One large factor at play here is the successful turnover of inventory achieved through our Ariake Project and other efforts and our good coordination of inventory management chains across the planning, production, distribution, and retail stages. That makes it easier to control discounting rates and improve distribution efficiency and store productivity. There are still many issues to iron out, but this coordination is one of the areas in which we have made solid progress.

Regarding UNIQLO Japan, we have worked to reduce the cost of sales by improving production efficiency through concentrated materials purchasing, etc. We have also improved the gross profit margin by controlling discounting rates. Specifically, our strategy of seeking to attract customers, not with discounts, but by proactively conveying information about product value is starting to work really well. The improvement in the SG&A ratio is due to strong sales as well as the increased cost-effectiveness of our marketing and rising distribution efficiencies.

Regarding Greater China, we are pressing ahead with our strategy of controlling discounting more than we have in the past and focusing instead on appealing the value of our products and strengthening our branding. Sales have increased as a result of these efforts, but, more than that, our discounting rates, cost effectiveness, and inventory efficiency are also improving.

Q: Is the expansion in e-commerce linked to the improvement in profitability?

A: CFO Okazaki – The profitability of our e-commerce operation is roughly similar to that of our physical stores. UNIQLO Japan e-commerce profitability did dip at one stage due to leading investment in the Ariake warehouse, the new warehouse in Western Japan launched last year, and further improving our e-commerce platforms. However, e-commerce sales have been growing rapidly and have reached a level that is easily able to cover fixed costs, so, in the first quarter, e-commerce profitability was on a par with that of our stores, thus contributing to the improvement in overall profitability.

Q: I think you were probably fairly restrained on orders at the beginning of FY2021 due to COVID-19, so how have you managed the subsequent strong sales?

A: CFO Okazaki – We had thought we would be more restrained on orders, but we had predicted strong sales and higher demand primarily at UNIQLO Japan in the first quarter, so we ordered additional production and took a more aggressive stance than originally planned,

Q: What is behind the higher-than-expected improvement in the UNIQLO Japan gross profit margin?

A: CFO Okazaki – The strong sales performances in September and October enabled us to control discounting more than we had envisaged. However, not everything went well, as, despite proactive efforts, our rundown of Spring and Fall inventory is running slightly behind schedule. The situation would be even better if we could improve the gross profit margin while making greater progress on running down Spring and Fall inventory.

Q: How are your business partners, including all the companies along your supply chain, faring right now?

A: CFO Okazaki – Working together with our partner factories is a core part of our business, so we exchange information on a daily basis and work together to achieve our common goals. We work hard on these relationships based on the conviction that our joint prosperity is intertwined and we will advance together. By the same token, we are conscious of the fact that our partner factories work extremely hard for us and achieve results, and we are delighted to be able to work with such great partners.

Q: You say there are points you could still improve on in terms of developing a more coordinated chain of inventory management across the planning, production, distribution, and retail processes. What are you referring to there?

A: CFO Okazaki – While our end-November inventories did not increase compared to the previous year, we were comparing them to a period last year when we had amassed stock because of the warm winter, so I would actually have been happy to see inventory reduced even further. In addition, sales were not consistent during the month of December given the comparatively warm weather early on in the month, some very cold spells mid-month, and an increase in COVID-19 infections in the latter part of the month. Honestly speaking, it is very difficult to manage stock in the face of such volatility, and we even suffered shortages of some Winter items around the middle of the month. I think there is still plenty of room for improvement in terms of the accuracy of our demand forecasting and fine-controlling the timing of product introduction. There is some room for improvement at the overall level, but you see even more room for improvement when you view things on an individual product or SKU basis. There is also huge room for improvement regarding our future services and profitability.

Q: How did you manage to improve your SG&A ratio? Are there areas where you can further control costs or boost efficiencies?

A: CFO Okazaki – The improvement in the SG&A ratio stems from ongoing Ariake Project efforts. We have achieved some very large cost savings by improving inventory efficiencies and eliminating inefficiencies through increased inter-department coordination. If we continue these efforts, I think we are certainly capable of maintaining this level of cost control. In terms of target areas for future improvement, we still have some unprofitable stores and operations, so we will be focusing on improving efficiency and profitability there.

Q: Do you expect profitability will improve as e-commerce operations expand?

A: CFO Okazaki – Yes. The benefits of scale kick in as e-commerce sales increase, so I think e-commerce profitability will rise. By extension, as the e-commerce percentage of total sales increases, overall profitability will also improve.