

Business Results for Fiscal 2021 First Half (September 2020 to February 2021)

Below are some questions from our analysts' meeting concerning business results for the first half of FY2021, or the six months to February 28, 2021. The answers have been edited for clarity.

Q: In your initial FY2021 business estimates, you predicted a record operating profit of ¥265.0 billion. This time you have revised up your forecasts once again. Mr. Yanai, what is your thinking behind this?

Tadashi Yanai, Chairman, President and CEO: First, I think it is important that all employees have hope. In terms of the targets themselves, it is important to set yourself as high a target as is physically possible to achieve, but, as a public company, while we set high targets, we need to be conservative in our forecasts. I also want each employee to both think for themselves and conduct their jobs based on the company philosophy. We operate on a global scale, so it is important to value each employee's individual thinking but at the same time we need to uphold the spirit of our company, because that will enable us to conduct our operational activities based on the same unified corporate spirit in every market, wherever it may be.

Q: Various areas within Fast Retailing have seen innovative progress during the COVID-19 pandemic, including digitalization, distribution, and supply chain, but, Mr. Yanai, which areas in particular do you feel have grown stronger?

Chairman & CEO Yanai: We have faced various difficulties, but you can't cite difficulties as a reason for not being able to do something. Unless everyone believes they can do things, asks different people for their opinions, selects the best available method and implements it, we won't survive. In light of recent experience, I think we now have more employees and managers who think that way.

Q: What is your internal evaluation of UNIQLO Japan March sales performance? Have you incorporated the March result into your second-half and full-year business estimates?

Chairman & CEO Yanai: I think the March sales performance was as expected. Going forward, our plan is to boost actual sales and secure a solid sum total gross profit.

Q: In Japan, the absorption of the sales tax into your original displayed prices represents a de facto price cut, but what about your current global pricing strategy? Is your policy to set

appropriate price levels for each individual market as opposed to ensuring uniform prices worldwide?

Chairman & CEO Yanai: In terms of our global pricing strategy, we check every season what price levels people in different parts of the world are able to afford and the position we are in as a company and then we have to determine precise pricing policies depending on that position. While our brand position might be the same, the standards people use to evaluate that brand position do differ from market to market and so we have to consider those closely when setting prices. Having the same prices everywhere doesn't generate the same evaluation.

Q: The UNIQLO Japan gross profit margin has improved by an average of roughly 2.7 points over the past 18 months. Is that due primarily to better controlled discounting losses achieved through your transformative Ariake Project?

Takeshi Okazaki, Group Senior Executive Officer & CFO: Yes, your understanding is correct. We have been pursuing a new business model approach that doesn't rely heavily on discounting and our inventory operation has improved. As a result, we have seen a large decline in discounting rates. In addition, we are also enjoying a lower cost of sales. Foreign exchange rates have been favorable in that regard and, more recently, we have been working systematically with our partner factories to boost production efficiency in anticipation of the switch to tax-inclusive product price displays. Lower discounting rates and cost of sales have both contributed to the improved gross profit margin, but if I had to pick one, I would say that the improvement in discounting rates has had the greater impact.

Q: Fast Retailing tends to discount products at the end of the season to rundown inventory and offer limited-period discount sales at the beginning of the season to attract customers. Are discounting losses higher on the inventory rundowns?

CFO Okazaki: Right now, yes. We are having to discount prices to offload excess stock in some areas and so discounting losses on inventory rundowns are higher right now. We call limited-period discounts "limited-time prices," but, in actual fact, we use them as a way of offering good products at a trial price, or to recommend certain products to customers at the start of a season. I'm not saying we are not offering any limited-time prices, but our current underlying approach is to avoid offering random or excessive discounts and to focus instead on selling products by carefully conveying the value of each product through marketing. As a result, right now, the number of limited-time price events has declined sharply and we are offering discounts in more areas for the purpose of running down inventory.

Q: Following your decision to absorb the sales tax element and leave your original prices

unchanged when you switched to tax-inclusive price displays in Japan, will you need to reduce the magnitude of limited-time prices a little in FY2021?

CFO Okazaki: Our decision to leave prices unchanged when we switched to tax-inclusive price displays is equivalent to a price reduction in real terms. We think that the new prices will make it easier for customers to buy. Having said that, our current aim is to shift away from a discount-reliant business model by clearly conveying the superior value of our products through marketing channels, and we intend to continue moving in that direction going forward.

Q: Mr. Yanai, what do you consider to be the biggest challenge facing your company right now?

Chairman & CEO Yanai: We humans all do a fair bit of thinking, explaining, and analyzing, but few people actually execute those thoughts. So our motto for this business year is execution. Not saying it out loud, not explaining it, not analyzing it, but actually executing an idea and seeing it bear fruit. Getting all our employees to embrace that approach is the biggest challenge right now.