

Business Results for Fiscal 2021 Third Quarter (September 2020 to May 2021)

Below are some questions from our analysts' meeting concerning Fast Retailing business results for the third quarter of FY2021. The answers have been edited for clarity.

Q: Can you tell us more about the sales situation in China?

Takeshi Okazaki, Group Senior Executive Officer & CFO: In terms of China sales, while there were some external factors, we also had some issues with the way we formulated our own business. Two years ago, we were able to launch our KAWS UT collaboration that showcased how we can differentiate ourselves as a global brand. It was much talked about and we were able to attract customers into our stores and encourage customers to access our e-commerce services by astutely conveying news about the collection. Looking back on it, we realize that our capacity to convey compelling news was weak in the third quarter. This is an internal failing and so we have to improve it.

Meanwhile, the potential and quality of local brands is improving dramatically. We are acutely aware that, in addition to conveying newsworthy features about our products, we also have to differentiate ourselves from local brands by always offering value that only UNIQLO can create as a global brand. I think we can, and are, now doing this.

Q: Can you give us some more details about inventories in the Greater China, North America, and European regions?

CFO Okazaki: We were fairly bullish on our sales forecasts for Japan and Greater China, but sales actually came in lower than anticipated due to the spread of COVID infections and the factors that I have just talked about. As a result, we now have commensurate excessive inventories from those areas. As far as China is concerned, we don't have any inventory hanging around from last year, and so have been able to start selling Spring Summer ranges with fairly light inventory. As a result, we believe we will be able to broadly rundown any excess inventory generated in FY2021 within the business year through end August.

In sharp contrast, in the United States and Europe, we are having to run down inventory of year-round products owing to prolonged lackluster sales in the wake of COVID-19. While they have no problem with Summer inventory levels, those regions still have heavy inventories of year-round products. Having said that, sales have recovered dramatically from the third quarter so, if the current sales trend continues, I don't think current inventory levels will be a big issue.

Q: You say that performance from China came in below plan due to factors relating to your own company and business rather than external factors. Is it right to assume that any external influences remain calm from May onward as well?

CFO Okazaki: Yes, I think we can return to a firm growth track if we solve the issues with our own corporate capabilities.

Q: You mention problems regarding insufficient conveyance of newsworthy product features at UNIQLO operations in both Japan and China. What is a realistic timeline for solving these issues?

CFO Okazaki: We didn't see any particular increase in UNIQLO Japan sales in April or May. The country was operating under a state of emergency, which affected our business, and we were also unable to offer sufficient fresh product appeal or convincingly convey product information.

Another reason was that we are comparing the third quarter with an extremely strong sales period in the previous year. In that period, we enjoyed a rebound in demand when the state of emergency was lifted, our product mix featuring loungewear, one-mile wear, and other ranges was well suited to our consumers' desire for stay-at-home clothing, and we also saw the emergence of a hit product in the form of AIRism masks. This year, while we naturally prepared new products and devised new ideas, we weren't able to fully let go of the previous year's strength in many areas and so the new products got hidden in the process. From our customers' perspective, they couldn't get a strong sense of what was new. I think that was the big problem.

We will be doing a big review of our product ranges not only for next year's Spring Summer season but for this year's Fall Winter ranges as well. We must learn from this recent experience and make sure we convincingly convey product information.

Q: You essentially cut prices in Japan from March 12. How has that move affected sales? Can you tell us the motivation and background for this strategy?

CFO Okazaki: From March 12, we decided to make the original product price the consumption-tax inclusive price, so that we could offer our customers products at easy-to-buy prices. While customer visits slumped in the third quarter, we believe that was due to COVID restrictions under the latest state of emergency as well as insufficient fresh product appeal and conveyance of newsworthy features. Those were key reasons why customer numbers didn't increase. Normally, you have to offset the impact of a price cut with increased sales, but we were not able to achieve that in the third quarter. However, we decided to absorb the consumption-tax component because we believe it is important to maintain a steady same price line and because we wanted to continue providing products that are easy for our customers to understand and buy. Ultimately, I think this will prove to have been the right decision in the medium term. In actual fact, the number of items purchased remains firm, which suggests that we were able to ensure our products remained easy to buy and that our decision was meaningful.

Q: We understood that you were pursuing a policy in China of consistently curbing excessive discounting in FY2021. Did you stick to this policy in the third quarter as well? Also, will you

adopt the same approach regarding future discounts?

CFO Okazaki: We have been pursuing a policy of controlling excessive discounting and appealing a product's superior value instead. Over the medium-term, we are looking to gradually shift from a business model that relies on discounting to one that appeals product value. We are already making solid progress on this and I want to stay the course going forward.

Q: Also in relation to China, back in April, you explained that you were controlling your marketing activities. Was that a short-term measure just for April?

CFO Okazaki: There was an added element of control over marketing activities in April, but, right now, we are operating normally. We have to ensure that our products themselves are truly good if we are going to firmly appeal on product value, and we are currently doing well in China.