

Business Results for Fiscal 2021 (September 2020 to August 2021)

Below are questions from our analysts' meeting concerning business results for FY2021, or the twelve months through August 31, 2021. The answers have been edited for clarity.

Q: Your estimates for UNIQLO operations in Japan and the Mainland China market for FY2022 seem to be too weak. Yanai-san, can you explain your thoughts on this and the background behind these figures?

A: Tadashi Yanai, Chairman, President and CEO – To be honest, it is very hard to tell what is going to happen in the world right now. We did face various issues last year, but this year the situation lacks transparency, so we feel that our business estimates are reasonable.

A: Takeshi Okazaki, Group Senior Executive Officer & CFO – The reasonable nature of the estimates that Mr. Yanai just mentioned refers to our determination to finally implement core Ariake Project-centered reforms and produce concrete results. Instead of pulling out all the stops on sales to very little purpose, we intend to advance reforms for creating frameworks that will help firmly increase earnings and to prepare for accelerated growth from next fiscal year onward.

Regarding Japan, we did experience some special demand for stay-at-home clothing and masks in the first half of FY2021, so we determined our FY2022 sales targets after calmly assessing the likely decline in this special demand portion and also the fact that same-store sales declined considerably year on year in September due to unseasonal high temperatures. In light of these factors, we set business estimates that we considered to be achievable. So, please view these estimates not as conservative but as illustrating our determination to pursue reforms and set ourselves up for a better future.

Our view on the Mainland China market is broadly similar. We also saw extremely high recent temperatures there and, consequently, a general slump in overall apparel consumption. Again, we determined our first-half business forecasts for that market after calmly assessing the latest facts. In terms of the changes to the competitive environment caused by local brands that the media has been concerned about, I do think that local brands in the Mainland China market are gaining strength. However, honestly speaking, we have not yet seen any competitors emerge that are positioning themselves as we do, i.e. offering a broad range of clothing that truly satisfies everyday living needs based on a LifeWear concept for ultimate everyday wear. We believe that our LifeWear concept has also successfully permeated the Mainland China market and won customer support, so we remain firmly confident that we will be able to grow our company in line with the broader development of that market.

Having said that, we don't want to act in a conceited way but instead we want to continue firmly identifying customer needs in the Mainland China market and improving our products and services.

A: CEO Yanai – One more point I would like to add is that, while our global growth is centered around the Mainland China market and Southeast Asian region, I do want to accelerate store openings in Europe and the United States as well so that we can ultimately open a similar level of stores in those regions. However, this store development will take time, so please view FY2022 as the year for preparing for more new store development.

Q: How do you view the impact on corporate performance from production delays and transportation delays caused by the global container shortage?

A: CFO Okazaki – Production delays from Southeast Asian factories are primarily impacting our Japanese, US, and European operations. We are seeing some delays in our cut & sew clothing orders as well as our down and other outerwear items, but we have already incorporated this delay into our business estimates for the year. In order to keep any inconvenience to our customers to an absolute minimum, we are responding by transferring production to other areas and transporting products by air. So, while this will impact performance in some areas, we don't think the impact will be that large.

Q: You have already come so far with your Ariake Project, so what prompted you to say you wanted to make FY2022 the year of large reforms? You also mentioned that you needed to normalize UNIQLO Japan inventory. Does that mean that inventories have still not been sufficiently normalized even after all your efforts to date?

A: CEO Yanai – Many countries and regions have been impacted by COVID-19-related lockdowns and restrictions on businesses and general movement, which are still continuing in some locations. This has impacted both the production and retail of goods and often resulted in delivery timings and sales levels that were out of step with our assumptions. Controlling inventory proved a consistently difficult task for reasons quite separate to the Ariake Project. So, please view this first and foremost as a period in which we are dealing with unexpected and opaque factors in all local markets around the world.

A: Dai Tanaka, Group Executive Officer – Our transformative Ariake Project is progressing steadily as I explained in the corporate results briefing, but, given the delays in production and distribution that we are seeing in the wake of COVID-19, the reduction in inventories that we have achieved through inventory controls is still insufficient. As we progress with our Ariake Project initiatives, we see there is still plenty of room to evolve our processes by improving links between production and retail, shortening lead times, and increasing planning accuracy.

Q: When you announced your third-quarter results back in July, you talked about the fact that your products lacked sufficient appeal and newsworthy elements in Japan and the Mainland China market. Has that situation improved now?

A: Group Executive Officer Tanaka – We enjoy a large customer base with approximately 140 million registered app members globally and we receive large numbers of opinions from customers detailing any clothing-related problems in their lives and their product and service requests. We are gradually creating a platform that enables us to turn those requests into concrete products for prompt delivery to customers together with attractive product-related information. In addition to the products that I listed in today's conference, we have also been able to discover new latent customer needs for products such as absorbent feminine hygiene underwear, etc. Going forward, we will be looking to rapidly commercialize the products and services that customers want with even greater accuracy.

Q: Can you tell us about your plans to diversify your earnings pillars? You have talked this time about having completed preparations for a quantitative expansion in the United States, but what has prompted this confidence right now? How do you plan to grow your operation in the United States from FY2022 onward?

A: CEO Yanai – We have already closed almost all the unprofitable stores that needed to be closed. We have also closed any stores not on the East Coast or West Coast and limited our store network to major cities on the two coasts. Completing those reforms has enabled us to forge a profitable business structure in the US, and, sure enough, we turned our first profit in that market in the second half of FY2021. From now on, we are thinking of opening stores in our usual market development fashion. While we want to become the No.1 brand in the US, we are definitely not capable of doing that with our current level of strength. For that reason, we don't intend to continue on the same trajectory as before, but will proceed with new store openings based on what we need to do to become No.1. At the same time, we are changing and renewing everything from our e-commerce business to means of transporting products. We intend to start from the very beginning as if we were just entering the US market for the first time. Fortunately for us, e-commerce is experiencing a golden age in the US, many physical stores are being closed, and few people are opening new stores, so it is a great environment for us to be opening new stores.

Q: Has there been any change in your views on future growth in the Mainland China market and Southeast Asian region?

A: CEO Yanai – Absolutely no change at all. The growth center of the world is the Mainland China market and other parts of Asia. Half the world's population lives in this region and I believe people's

incomes will gradually rise over time to create a predominantly middle-income population. We intend to rapidly accelerate the pace of new store openings in Southeast Asia. I want to maintain our pace of opening 100 new stores a year in the Mainland China market. So, to reiterate, our view on Asian growth potential has not changed at all. What has changed is that, in addition to Asia, we now feel confident about expanding our business operations in the US and Europe as well.