

Business Results for Fiscal 2022 First Quarter (September to November 2021)

Below are questions from our analysts' meeting concerning business results for the first quarter of FY2022, or the three months through November 30, 2021. The answers have been edited for clarity.

Q: When do you think UNIQLO sales will recover in the Mainland China market?

A: Takeshi Okazaki, Group Senior Executive Officer & CFO - One of the major reasons for the decline in revenue from the Mainland China market in the first quarter of FY2022 was a general decline in demand for apparel due to the severe environment and tough restrictions on movement related to COVID-19 as well as broadly warmer weather compared to the previous year. We are not overly concerned about this trend as the competitive environment in the Mainland China market has not changed and we have established our position as a brand that offers a broad range of essential daily clothing items at reasonable prices based on our LifeWear (ultimate everyday wear) concept. I think a rebound in consumer sentiment will be key to fueling a sales recovery in the Mainland China market. I believe the situation will change considerably once we get into the second half of the business year from March through August 2022.

Our expectations and predicted growth potential for the Mainland China market have not changed at all. Indeed, tough times like these make us even more determined to maintain a positive stance by investing firmly in branding, reviewing competitive salary levels to secure quality human resources, and investing in IT, etc.

Q: Can you give us more background on why you did not revise your full-year business estimates?

A: CFO Okazaki - The main premise is that we don't really want to raise or lower our full-year forecasts after only three months have passed. In addition, we cannot tell what impact the Omicron variant is likely to have. We are not pessimistic about the future outlook, but we believe it is too early to change full-year earnings forecasts at the end of the first quarter. Having said that, performance has been trending above our forecasts, with profit growth in the North America, Europe, and S/SE Asia & Oceania regions in particular outstripping expectations.

Q: What measures are you taking to counteract the sharp rise in raw materials prices?

A: CFO Okazaki - We have long-term hedging in place for foreign exchange rates and we have also

taken measures on materials, so we do not expect too great an impact on second-half performance. We believe we can maintain profit margins by reducing discounting rates. Having said that, if the sharp rise in raw materials prices persists, it could start affecting cost of sales from Fall Winter ranges onward. Regarding potential price increases, we will consider this by carefully confirming the price of each individual product and taking pains to ensure any action does not impair UNIQLO's intrinsic value offering, namely our ability to provide good-quality, good-value products. We seek to prepare for any event by judging whether to increase the value of any products whose cost of sales is too high in order to bring prices and cost of sales back into balance, or whether to stop making those particular products.

Q: You have a cash balance of 1.2 trillion yen. Is this an appropriate level?

A: CFO Okazaki - First, we believe we need to achieve sales of 3 trillion yen as soon as possible. When you have that aim and are running a business like ours that involves constantly holding inventory and taking on inventory risk, then I don't think a 1.2 trillion yen cash balance is excessive. That on-hand liquidity is what enabled us to maintain our aggressive and positive stance even in extremely harsh COVID-19 conditions. We also need to systematically invest in digitalization, automated warehouses, distribution infrastructure building, and other areas. We pursue sustainability and business activities in close tandem, so there will be times when we need to use cash in the short term. We have various investment ideas designed to promote future growth, so I want to have a firm pool of cash on hand for that purpose as well. Having said that, if our cash reserves did rapidly increase, I would want to think about setting an appropriate cash level and how to best manage cash.

Q: Do you expect capital expenditure will increase markedly going forward in light of increased digital and sustainability-related investments?

A: CFO Okazaki - I can't give you any concrete details at this stage. However, we are intending to strengthen our position as a world-class digital consumer retailing company on a global scale. Whether we are talking about digital or logistics investment, I think there are multiple investment opportunities around the world that could help boost our competitiveness, efficiency, sales, and profits. At the same time, we also want to continue enthusiastically opening new stores, which are a key means of driving growth.

Q: Profitability has improved considerably in the North America, Europe, and South Asia, Southeast Asia & Oceania regions, but can you tell us how sustainable those improvements will be going forward?

A: CFO Okazaki - Broadly speaking, inventory turnover and inventory management is improving at

UNIQLO International. The segment's gross profit margin has improved considerably thanks to significantly lower discounting rates and stable cost of sales. I think the current trend is sustainable because we are able to achieve our fundamental inventory turnover policy of determining and selling inventory based on demand forecasting, and because the scale of the business is also expanding.

In the United States and Europe, we have pressed ahead with our scrap and build policy of replacing smaller, less-profitable stores with larger, better-located stores in order to improve our profit structure. We have also devised and invested in methods to improve productivity, including productivity at our headquarters and stores. These efforts are bearing fruit just as demand has started picking up as part of the recovery process from COVID-19, and that has enabled us to get our businesses on track in both Europe and the United States. Going forward, I want to continue accelerating new store openings and promoting growth that steadily generates higher profits. Our S/SE Asia & Oceania operation was a highly profitable business prior to the outbreak of COVID-19. The region did struggle in the wake of COVID-19 but has started regaining its original high earnings ratio and profitability in the first quarter, which we believe are sustainable.