

Business Results for Fiscal 2022 First Half (September 2021 to February 2022)

Below are some questions from our analysts' meeting concerning business results for the first half of FY2022, or the six months to February 28, 2022. The answers have been edited for clarity.

Q: Your UNIQLO operations in the Greater China region struggled in the first half of FY2022, but what is your future strategy there?

Tadashi Yanai, Chairman, President and CEO - We intend to continue with our current strategy of developing a network of 3,000 stores in the Greater China region. Mainland China is a multiethnic society, so I think the most important thing is to continue to create LifeWear (ultimate everyday clothing) that is MADE FOR ALL and enriches the lives of all people. That policy has not changed at all. As we said in the presentations, we are focusing on developing individual local store management. Every store is different and every employee is different. We intend to focus on encouraging both top-down and bottom-up communication. I want to pursue a style of management that differs from traditional top-down models in Mainland China, just as we are doing elsewhere.

Q: How do you intend to grow the UNIQLO Japan operation from FY2023 onwards?

CEO Yanai - We have to pursue a much more aggressive commercial business in Japan. That means considering very deeply what customers really desire and what products they really want, and then making those products. We also have to deliver product information to customers along with the products. A true digital consumer retailing company turns actual information into products and delivers fresh product information together with its products to ensure customers recognize the value of then products, and then buy them. That is the kind of company I want us to become.

Q: Is there anything you would want to change about the UNIQLO business model?

CEO Yanai - I think we have to change our global headquarters structure. Right now, our headquarters are very Japan centric, but I want to make New York another headquarters. In particular, I want to create global headquarters where our senior executive officers and executive officers are not all located in the Japan head office but are positioned in different places around the world or travel from place to place. We need to look at the data and directly ask customers on the ground exactly what they want. We also intend to reduce lead times on the making, execution, and following through of decisions to do with daily operations. Nowadays, you can conduct a meeting anywhere in the world if you have a smartphone and a tablet. So, rather than looking to change our operational structure itself, we are looking to ensure our

employees and managers conduct their daily operations in a manner that best suits the current times.

Q: You have spoken about nurturing talented human resources, but is your management decision-making framework changing as well? Also, how do think you might change that framework in the future?

CEO Yanai - In terms of changes to our decision-making framework, as I said earlier, in order to enable our local headquarters to evaluate, determine, and execute business promptly, everyone must maintain regular contact, local CEOs must consider all decisions from a top-down perspective and experienced local staff must contribute from the bottom up. That means creating a framework for pursuing Global One ZEN'IN KEIEI management, in which all employees adopt a managerial mindset and the best global methods, in a new and much flatter organization. To date, our management has been very much Japan focused or has been directed by me and performed by the Japanese management team. Going forward, global management teams will decide the daily management of local operations to suit local frontline conditions. Another important element is to test how swiftly we can make and implement decisions and how quickly we can improve operations by using IT, AI, distribution center robotics, and other technologies. In other words, we intend to develop the very latest, most advanced management style.

Q: You have said that you want to expand the UNIQLO North America operation to 200 stores with sales of ¥300 billion in FY2027. How do you see the business developing beyond that point? Do you think there is a chance that UNIQLO could become a major household brand in America as well?

Daisuke Tsukagoshi, Group Senior Executive Officer & CEO, UNIQLO USA - Over the medium term, we will be targeting sales of ¥300 billion, but after that, we will extend our sales targets to ¥500 billion and then ¥1 trillion. Everyone has to believe in us in order to become a major brand. To achieve that, we first have to tell people in the North American market exactly who we are. UNIQLO has its own very firm LifeWear philosophy towards the creating of clothes, and we have to convey this philosophy very clearly to our customers. North America is a highly diverse region and we have customers of all ethnicities, nationalities, ages, and genders visiting our stores. I don't think we will be able to grow our operation in the North American market going forward if we do not successfully instill our approach to clothes-making into the market. I want to continue to focus on this point going forward through ZEN'IN KEIEI.

Q: Are you seeing a successful pattern for new store openings emerge in your North America operation?

UNIQLO USA CEO Tsukagoshi - We are currently negotiating future stores openings in locations such as the East and West Coasts of the United States, but we are selecting the most prime-located shopping malls in each region and seeking to negotiate rents with completely different conditions than in the past. We are opening new stores, so they have to make a profit. Also, the stores themselves have to function as a brand. Thanks to e-commerce, we are seeing customer numbers increase rapidly in areas where we do not have an existing store network, so we are looking to expand new store openings to new regions. In other words, we are setting a very different course for our store-opening strategy and many other elements of the business.

Q: It seems that essential products are starting to sell much better in the North American market, but what are you doing differently in terms of commercial business? What is your product strategy?

UNIQLO USA CEO Tsukagoshi - We are moving away from our former way of doing business that placed great emphasis on discounting. In the United States in particular, a large number of brands increase discounting over the holiday season but one of our fundamental commitments is to avoid doing that and to promote the value of our products instead. Our essential products offer a sense of beauty and rationality. We work very hard to consistently convey to our customers throughout the year just how much work we put into ensuring those qualities in our clothes. We tell our customers time and time again, and then keep on telling them about the superior qualities of every type of clothing that we make, be it outerwear, bottoms, shirts, or cut & sew items. I intend to continue conveying this information and seeking to differentiate us from other brands so that we can create more UNIQLO fans in the North American market.

Q: Can you tell us how you expect to achieve an operating profit margin of 20% in the North American operation?

UNIQLO USA CEO Tsukagoshi - We have managed to greatly improve the North American operation's gross profit margin by changing the very structure of the operation itself. We are also looking at every expense and investing in truly effective marketing by first shifting from mass marketing to targeted marketing. Regarding personnel costs, personnel costs are rising rapidly in the United States and Europe but we have been able to make store operations much more efficient by introducing self-checkouts and RFID and by improving productivity per person hour. Regarding distribution, we are seeking greater efficiencies in warehouse management and improving our distribution schemes. As for

store rents, we continue to negotiate with malls and are seeing store rents decline sharply compared to past levels. We will continue to build frameworks that enable us to consistently improve profit margins by forming long-term partnerships with different players in each region.