

Business Results for Fiscal 2022 (September 2021 to August 2022)

Below are the main questions from our analysts' meeting concerning business results for FY2022, or the twelve months through August 31, 2022. The answers have been edited for clarity.

Q: You explained that everything you need to become a global player is now in place. What exactly has changed now compared to before to make you feel that way?

Tadashi Yanai, Chairman, President and CEO: Fast Retailing has built up the human resources base that we needed. In the retail industry, it is very important to have a good pool of human resources, including the people in our on-the-ground operations. We have now nurtured the right human resources we need from the sales people in our stores right through to top management, especially in Europe. Another point is that, whenever we develop an operation in a different market, each country has its own culture, and so we have to pay due heed to both local and global conditions and strategies. From a global perspective, we have a consistent global strategy that we follow and I think it is extremely important for us to develop stores that symbolize that consistent policy in the very best locations around the world. So, in short, I think the most significant points are that we have opened flagship stores that serve as a footprint for our development in Europe, America, and Asia, and we have attracted the human resources we need to do that.

Q: Your gross profit margin is improving globally, but what is your strategy for improving the gross profit margin or the operating profit margin even further going forward?

Takeshi Okazaki, Group Senior Executive Officer & CFO: I think we can improve the gross profit margin further by reducing discounting rates further. Given the disrupted logistics and delayed production caused by the COVID-19 pandemic, we have veered on side of caution when operating our supply chain over the past two years. Throughout that time, we carried more stock than usual and it was difficult to flexibly adjust our plans to suit latest sales conditions. However, now that the supply chain has normalized, we are once again ready to strengthen our management by introducing products based on a clear understanding of demand, our planning, and a constant scrutiny of latest sales, and by determinedly removing items that are not selling well and replacing them with more popular items. We also intend to realize a commercial business model that does not rely on discounts by appealing the value of our products and inspiring greater appreciation and affinity among our customers. I think there is still room for improvement in terms of both promotional discounts and discounts to offload excess inventory. At the same time, businesses with highly efficient inventory tend to be very cost effective and

we can still do more to eliminate unnecessary products and processes in both our distribution and store operations. That would enable us to spend more time on customer service and customer contact and strive to achieve even higher quality operations, which would, in turn, enable our business to become even more cost effective.

Q: What do you believe needs to happen going forward to achieve an operating profit margin of 20% in Europe?

Taku Morikawa, Group Senior Executive Officer, CEO of UNIQLO Europe: First, we need to expand our flagship stores. Flagship stores generate over half of our European profits. Thanks to our successful branding, the UNIQLO brand is well known in all cities across the region and we have been able to build good relationships with landlords. We are pressing ahead with our strategy to open truly good stores in the very best locations. We are making progress every year on the product front as well, but there is still more we can do to provide products that really understand and satisfy the needs of European customers. We intend to further refine our product development and actively create products that will sell well on a global scale. In addition, while we are nurturing a strong human resource base in our stores, I think every staff member can still grow and develop their skills and experience even more. We can further increase the number of UNIQLO fans by raising our level of customer contact and service. Finally, Europe is some distance from Asia, so the lead time between planning products and those products arriving in stores is longer. Shortening these lead times is a key point, so we are determined to move forward on some supply chain reforms. If we can make progress in all these areas, we will definitely be able to achieve an operating profit margin of 20% or higher.

Q: Are there any major competitors in Europe that sell similar basic, high-quality products at a similar price point to UNIQLO?

Senior Executive Officer Morikawa: ZARA and other brands are strong in Europe, but they occupy a different brand position. When customers comment on UNIQLO products, many point out that there are no similar products in Europe, or that there are no products of similar quality at a similar price point. In the beginning, customer understanding of our UNIQLO LifeWear branding was almost non-existent, but that appreciation is now rapidly becoming much more deep-rooted. We are not a fast fashion brand. We are not a luxury brand. We do offer products in an affordable price range, but I think we are becoming a truly unique brand that offers perfect “Today’s Classic” clothing (classic designs with the newly combined functionality and comfort that all clothes should possess). I feel that the international media are starting to view the UNIQLO brand in this way.

Q: You are planning to open five new stores in Europe this year. Does this mean you are changing your aggressive stance on store openings? Also, core items are selling strongly in Europe, but what do local customers actually think of them?

Senior Executive Officer Morikawa: Up until now, we have only opened stores in Europe in the very best locations. We focused first on opening new stores in countries and cities where we already had a presence because our European earnings base was comparatively weak. However, with our earnings base having grown stronger in FY2022, we intend to actively open flagship stores in new countries and cities that show an affinity with the UNIQLO concept. I think this will double our new store opening opportunities. There are still many good cities in Europe that we haven't yet explored. I also want to increase new store openings by challenging new opportunities that we haven't tapped into yet, such as working with partners on town development in areas that are most vital to local daily life or creating stores that incorporate more sustainability-focused elements.

Regarding your question on the response to our core products, European customers concentrate strongly on the principles of our clothing when viewing products by questioning whether they really are basic, highly finished, and made from truly great materials. We have always had many items that would meet these discerning demands, but they were not sufficiently appealing in the past. We noticed that issue roughly three years ago and started working to rectify it. Our efforts to create new colors and appeal the value of our clothing materials has gradually help boost sales of UNIQLO's core items. For example, raincoats are a daily necessity in Europe, but we didn't have any in our product lineups. If we can firmly incorporate those kind of products, I think European customers will start to feel that they could and would buy essential daily items at UNIQLO, and we will be able to seize even more opportunities going forward.

Q: When you announced the FY2022 first-half results, you said that you aimed to open 30 stores each year in North America. Your new store opening plans for North America in FY2023 are now for 10 stores. Does this represent a change in your aggressive stance?

CFO Okazaki: Our overall strategy is, as you point out, to open roughly 30 new stores a year in North America. As I explained, the figure of 10 stores represents the new store plans that are clearly visible right now. We would like to increase that number as much as we can. You would be correct to understand that we are taking an aggressive stance and intend to actively advance preparations for new store openings in the next fiscal year and beyond.

Q: When you announced the FY2022 first-half results, you said that you had set FY2027 targets for North America for revenue of 300 billion yen and an operating profit margin of 20%. At the end of FY2022, you have now set FY2027 targets for Europe for revenue of 500 billion yen and a similar operating profit margin of 20%. Why do you think there are such overwhelming business opportunities to be exploited in Europe over the coming five years?

CEO Yanai: Our clothes are basic, but they are also classic and traditional. I think we will definitely be able to achieve those sales targets in Europe and that we will be able to push beyond the 300 billion yen target in the United States as well. Essentially, I feel that we will be able to achieve higher sales in both regions.