

Q&A Session on Business Results for Fiscal 2023 First Quarter (September to November 2022)

Below are questions from our analysts' meeting concerning business results for the first quarter of FY2023, or the three months through November 30, 2022. The answers have been edited for clarity.

Q: Your operations in the Greater China region reported significant declines in revenue and profit in the first quarter. How large was that profit decline?

A: Takeshi Okazaki, Group Senior Executive Officer & CFO – Profits from the Greater China region were not cut by half, they did decline significantly. This was due to the impact of COVID-19 restrictions on movement in the Mainland China market from September through November under the government's zero-COVID policy. Once those restrictions were eased in December, sales recovered temporarily in the first half of the month, but then dipped again from the mid-month onwards after more people refrained from going outside following a pickup in COVID-19 cases. If we take our own employees as an example, the number of infections declined sharply once into January compared to the December peak, and sales have started to pick up considerably in January. This illustrates how our performance in the Mainland China market correlates directly with the impact of COVID-19 infections. In reality, there is no sense that UNIQLO is losing its strong competitive advantage or that our relative position is declining. Once people started emerged from their homes once again, many customers came and visited our stores and sales picked up once again. We believe that our business in the Mainland China market will resume its growth trajectory once people get used to with-COVID living.

Q: You said that you had not made any changes to your initial business estimates first announced in October 2022, but are the revisions to employee remuneration in Japan that you announced on January 11, 2023 included in those business forecasts? Also, have you incorporated any other cost increases or additional costs?

A: CFO Okazaki – There are two stages to the investment in personnel expenses that we announced on January 11, 2023. The first phase involved the increasing of hourly wages for part-time and temporary staff in our stores that we already started implementing in the first quarter. This portion was factored into our initial business estimates. The second phase refers to the sweeping revision of remuneration tables for our businesses in Japan and our global headquarters. Only a portion of this phase was factored into our initial business estimates, but we do not believe we need to alter our

business estimates based on this. While these moves may result in a slight worsening in cost ratios in Japan over the short term, given our strong global sales, we expect to be able to absorb those additional costs and that it won't have a large impact on profits.

Q: What kind of efficiency gains or productivity improvements do you expect to achieve in association with your decision to revise remuneration levels?

A: CFO Okazaki – I think it is important to build environments that make it easy for employees in our stores and headquarters to demonstrate their abilities. To that aim, we have been working consistently to improve the efficiency of our store operations and implementing systems investment and other measures. I want us to use the time gained through these efficiency measures to interact more directly with customers, encourage a deeper appreciation of our brand and product value, and boost sales as a result. The underlying significance of raising productivity is not to reduce personnel costs but to boost sales and improve gross profit margins by enabling each and every employee to unlock their maximum potential. I believe that our decision to change our remuneration tables and encourage individual employees to work at a high level will have a markedly positive impact on business growth and cost efficiencies.

At the same time, given that we are focusing our attention on expanding our global UNIQLO operations, we are encouraging more Japanese staff to go overseas to pass on the expertise they have cultivated in Japan and overseas employees to come to Japan on personnel transfers to help enhance our global business operations. If we are to change the way our individual employees work and encourage them to work at a global level, then we need to evaluate them on a global level and offer them global-standard remuneration and rewards.

Q: Can you tell us about some of the background factors that resulted in the lower-than-expected performance from UNIQLO Japan? Can you also tell us about your outlook for the second half of FY2023?

A: CFO Okazaki – One of the key factors for the lower-than-expected first-quarter performance was the warm weather in November, which meant sales were not able to meet our targets. The slightly lower-than-forecast gross profit margin was also a factor. We take out forward exchange contracts on the products that we import. Put simply, if we assign forward exchange contracts for 100 and then stock up on products intending to sell 110, a portion of that total will not be sufficiently covered by the forward contracts. We then purchase that portion at spot exchange rates. The amount of products that we purchase at spot rates is extremely small as a percentage of total purchases so, usually, we are able to control any impact. However, in the first quarter of 2023, we witnessed an unprecedented sharp

depreciation in the yen, with the Japanese currency weakening by a further 30 or 40 yen after initial purchase prices were determined. That resulted in a slightly lower-than-expected gross profit margin for the quarter. However, we have been able to keep discounting rates firmly under control. A similar situation is occurring in the second quarter as in the first quarter, so we do expect the first-half gross profit margin to decline marginally. However, we are currently changing the structure of our business for the second half of the year, so we are not unduly worried about this situation.

Q: Did the UNIQLO Japan gross profit margin decline because sales proved stronger than you had expected and so you also had to procure more products than you originally assumed?

A: CFO Okazaki – Yes. The strong sales performance in September and October exceeded our expectations, so we ordered some strategic additional production. Sales subsequently turned sluggish in November due to the warm winter weather before strengthening again in December. Looking at the four months overall, I think performance was good.