

**Q&A Session on Business Results for Fiscal 2025 First Quarter (September to November 2024)**

**Below are questions from our analysts' meeting concerning business results for the first quarter of FY2025, or the three months through November 30, 2024. The answers have been edited for clarity.**

**Q: Why is UNIQLO Greater China performance not recovering as well as you had expected?**

Takeshi Okazaki, Group Senior Executive Officer & CFO: I think roughly half of the factors behind the shortfall in UNIQLO performance in the Mainland China market is external and half are internal. The main external factor is the lack of any recovery in consumer appetite for apparel. While we do tend to see sharp spikes in consumption during National Day, Singles Day, or other sales periods, consumer appetite is proving stubbornly sluggish at other times. The weather has also had an impact. The drop in temperature in early October did inspire greater demand and a stronger performance, but persistently warm temperatures in September and then again from late October through November stifled sales of Winter items.

In terms of internal factors, our understanding of the issues and our structural reform strategies remain exactly the same as when Ning Pan explained them at our previous corporate results briefing on July 11, 2024. One issue relates to the need to compile product mixes that are tailored to local needs. We have already divided the Mainland China market into several broad regions and started implementing detailed measures regarding locally tailored sales plans, product plans, inventory control, and marketing, but we have only just started. We are steadily implementing different initiatives and are getting a good handle on things, but it is a work in progress, and I think we can expect a considerable spike in growth going forward. Second, we are proceeding with our scrap and build strategy of closing smaller stores with lower sales and opening larger stores with higher sales in better locations. This is not a short-term initiative, but rather one that is designed to produce solid results over the medium to long term. We had initially been developing our business in the Mainland China market as a chain store to tap into the overall market's significant rate of growth. Now, I believe it is time to capitalize on the market's advantageous features while also changing the structure of our business and shifting to a network of stores driven by local store management in order to penetrate more deeply into the market. We should focus on overcoming these internal challenges instead of chasing short-term sales. We remain confident about the future of the Greater China region over the medium term.

**Q: What are the reasons for the deteriorating gross profit margin and SG&A ratio from the UNIQLO Mainland China operation? Also, how have customers responded to your decision to reduce prices on some products?**

CFO Okazaki: We reviewed the competitiveness of each individual product and revised the prices of some products to a more appropriate level. This resulted in a temporary rise in the cost of sales and a subsequent decline in the gross profit margin. The SG&A ratio increased as a result of our decisions to increase salary levels and invest in determined marketing to promote the value of our products.

The price revisions have been well received. However, they have not yet helped to drive overall sales higher. Going forward, we intend to enhance our marketing initiatives to ensure customers in the Mainland China market feel they are getting a very good deal in terms of the price and the value of our products. We believe it is important to ensure LifeWear becomes an essential part of customers' everyday lives in the Mainland China market.

**Q: In the slide on p.18 entitled "Fundamental GU issues and future strategies," how do these initiatives differ from what you have been doing to date, and why do you think you will start to reap the benefits of these actions from FY2026 onwards?**

CFO Okazaki: Our aim is to develop a GU brand that offers sales displays brimming with everyday fashion items that capture global mass fashion trends, as well as attractive styling suggestions and product mixes that draw customers in, and stores that are fun to visit in person. We are definitely making progress, but we have some way to go in terms of executing this vision and I don't think we have reached the point yet where customers look at GU's current sales floors and sense a significant change. Take GU products for instance, while the brand offers some hit products such as barrel leg jeans, it needs to create sales displays that are full of similarly popular items. Again, this is a work in progress. The opening of the first GU store in USA in September has pinpointed areas for improvement in terms of product mixes and styling options, and it is important that we steadily address these points. We want to generate positive results as soon as possible, but we are not a fast fashion company, so it takes a certain amount of time to develop these types of products and stock them in our stores. However, we are determined to generate visible changes and are fully focused on making that happen.

GU has also had difficulties launching enough strong-selling products due to shortages of top-selling items and excess stock of sluggish items. Basically, we had problems with the accuracy of our product planning, inventory control, and the timing and volume of additional production orders. We are introducing transformative Ariake Project measures at GU in the same way as we did at UNIQLO, but the level of execution is still lagging behind that of UNIQLO. The people carrying out the reforms are less experienced than at UNIQLO and the standards applied to perfecting GU products are less refined.

I also think it is taking a little longer to produce the desired effect because GU is seeking to apply the Ariake Project model cultivated by UNIQLO to the new arena of Fashion LifeWear. Going forward, we will assign experienced UNIQLO personnel to work with promising GU talent and generate more tangible results.

**Q: We have started to see differences in sales growth emerging for North America and Europe in the first quarter. How do these two regions differ?**

CFO Okazaki: In Europe, sales of Winter products proved strong from the very start of the period thanks to a prompt drop in temperatures from September and our decision to launch all Fall Winter ranges from the end of August. This helped penetrate the market from an early stage and swiftly create a very positive cycle. Meanwhile, our North America operation also grew strongly and generated significantly higher revenue. One of the most noteworthy developments there was our successful expansion into new areas. USA is a huge market, and each area has its own specific characteristics. It is extremely difficult to market a brand across the whole of USA, so it is very important to encourage brand penetration by opening flagship-class stores where people can go and see the actual stores and products for themselves. For that reason, we have adopted an approach in USA of carving a dominant UNIQLO presence by opening flagship-class stores in target areas and then opening more stores near that brand landmark. From that perspective, the opening of stores in Dallas and Houston in the first quarter was an extremely valuable experience. In October, we opened five stores in total in the state of Texas, all of which proved a huge success. Meanwhile, also in October, we opened our first store in San Diego to complement our current presence in California's coastal areas and Los Angeles. The store has since generated buoyant sales. All in all, I think the first quarter was very positive in terms of pinpointing the path for future growth.

**Q: The new UNIQLO stores in previously untapped areas of the North America region have done well, but what are the reasons and the strategies behind their success?**

CFO Okazaki: I think one of the key reasons behind this success is that UNIQLO is much better known now and customers trust us. When we consider the prospect of opening stores in a new area, we look at e-commerce sales trends, how many future core customers there are likely to be, and the macroeconomic growth potential of the area in question. In other words, we are looking to open core stores in targeted areas and build an instant presence. This approach has produced extremely good results, so we intend to continue with the same strategy going forward. We will continue to look at new areas. However, the important thing is not to open stores in lots of different areas just to boost store numbers, but rather to build a dominant brand by opening core beacon stores in areas with strong

potential and then following up by opening large-format and regular-format stores centered around that core store.

**Q: You are transforming your product mixes in the Mainland China market to better satisfy local needs. Are there any areas where this strategy has already proved successful? Also, when do you expect to reap the benefits of the structural reforms you have been pursuing in that market?**

CFO Okazaki: Our business restructuring efforts in the Mainland China market has yet to yield significant structural changes, but we have noted some positive developments. For example, on the product front, we developed a volume down coat to suit the needs of Mainland China's northernmost regions where it can get very cold, and that product has performed extremely well. The product has sparked strong demand not only in the Mainland China market but also in Canada and other regions, so I think that it could become an essential piece of LifeWear for local communities. Instead of exploring the needs of one individual country or region in isolation, I think it is important to look at the global market and ascertain whether a particular product can both satisfy a particular local need and be developed on a global scale. We have had some proven success with this approach, so we will be looking to promote similar initiatives going forward. Furthermore, we will have to make some major changes to our systems in term of product development, product planning, order control, marketing, and other functions if we are going to pursue this kind of regional response. The new systems have not yet been fully established and that is why, I think, we were not able to generate a sufficiently strong impact in the first quarter.

The response has been good. However, the benefits are not likely to emerge all at once but gradually, over time. I think FY2026 will prove stronger than FY2025. By FY2027, we will have different systems in place and our business in the Mainland China market will be developing in a completely different way than it is now. We will also have made significant progress on our scrap and build strategy for stores with low monthly sales. For these reasons, we are determined to continue to move forward with UNIQLO Mainland China reforms without being overly influenced by immediate conditions.