July 10, 2025

FAST RETAILING CO., LTD.

Q&A Session on Business Results for the First Nine Months of Fiscal 2025 (September 2024 to May 2025)

Below are some questions from our analysts' meeting concerning business results for the third quarter of FY2025, or the nine months to May 31, 2025. The answers have been edited for clarity.

Q: What are you expecting to happen to markup rates and cost of sales ratio at UNIQLO Japan and UNIQLO International from FY2026 onwards?

Takeshi Okazaki, Group Senior Executive Officer & CFO: The cost of sales ratio situation is different for each market. In Japan, the yen rates on the forward exchange contracts that we use for procurement purposes have depreciated, so, based on that, we will have to follow each individual product very carefully to determine the right price after considering markup rates and striking the right balance between price and value. Markup rates are likely to worsen slightly due to foreign exchange impacts, but we plan to maintain the UNIQLO Japan operating profit margin by improving discounting rates and the SG&A ratio. In the USA, our operations will likely be impacted by tariffs, but we will consider the balance between price and value for each individual product and consider revising prices if necessary, while also controlling discounting rates and pursuing greater productivity to temper any cost increases in order to maintain our operating profit margin. We do not expect costs in other markets will increase from fiscal 2026 onwards. The cost of sales ratio on some products will increase due to soaring prices of some raw materials, but that will not have a significant impact on the business as a whole.

Q: At 45 stores, the number of estimated new store openings for the Greater China markets for fiscal 2025 has declined compared to your latest estimate issued on April 10, while the number of store closures appears to be increasing. Will you continue with your radical scrap and build policy in fiscal 2026?

CFO Okazaki: We have not changed our new store opening policy for the Greater China markets. Our strategy is not to chase store numbers, but rather to open high-quality stores through our scrap and build policy. So far, the scrap and build policy has helped these targeted stores boost average monthly sales by 1.5 times compared to their former levels. The number of predicted new store openings in Greater China markets in fiscal 2025 has declined because we are very strict about selecting the location and proceeding with new store openings that fulfill these criteria. We will continue to close stores in fiscal 2026 at the same pace as in fiscal 2025. That could even mean that we see a net reduction in store numbers next year, but we will not be deterred from our focus on improving the quality of our stores. For example, the UNIQLO Chengdu store, which underwent the scrap and build process and opened market in May, has risen from roughly No.50 to No.5 in terms of Mainland China sales rankings. It was originally a large-format store, but after increasing the size of the sales floor and changing the store interior, we sense that sales are starting to grow. Going forward, we intend to maintain a firm focus on store quality when considering new store openings. That means attentively building the right kind of stores instead of simply boosting store numbers.

Our structural reforms are progressing in the right direction, and CEO Ning Pan and the rest of the Mainland China management team are confident. I am sure that the benefits of these reforms will emerge going forward.

Q: Why has the impact from the USA reciprocal and additional tariffs that was incorporated into the fiscal 2025 estimates been reduced compared to your announcement on April 10? Also, what impact do you expect these tariffs will have on corporate performance in fiscal 2026?

CFO Okazaki: The fiscal 2025 business estimates assume a 90-day suspension of the application of reciprocal tariffs and consider the latest information on various tariff agreements as of July 9, 2025.

Fast Retailing has not announced any specific impact for fiscal 2026. I think tariffs could have a considerable impact if we do nothing, but we are looking to firmly absorb any impact by reviewing product prices, curbing discounting rates, controlling costs through productivity gains, and considering other measures. We are currently preparing our response to ensure we can maintain our profit margins.

Q: When do you expect performance will recover in the Mainland China market?

CFO Okazaki: We think we can return the Mainland China operation to a rising revenue and profit trend from fiscal 2026 onwards. We have a plan in place for achieving that, and we are currently preparing to implement that plan. Performance in the fourth quarter of fiscal 2025 will depend on how far consumer appetite can improve, but, as indicated in the earnings announcement, we are currently forecasting a decline in both revenue and profits during that period.

We expect the benefits of the structural reforms that we are currently pursuing to emerge in the first half and second half of fiscal 2026, and we also expect to see some form of recovery in consumer appetite, so I believe we will definitely be able to return that operation to a rising revenue and profit trend in the coming fiscal year.

Q: I hear that other high-quality products similar to UNIQLO are being sold cheaply in the Mainland China market. What kind of impact will that have on your UNIQLO operation there?

CFO Okazaki: That might be happening to some extent, but it has not had a significant impact on our regular business and we are not overly concerned. There have definitely not been any cases where we have been forced to sell products at a discount because of such a development.

Q: What factors are behind the decline in gross profit margins at UNIQLO Japan and UNIQLO International?

CFO Okazaki: The underlying factors are slightly different for different regions. In Japan, cost of sales ratio increased due to weaker yen rates on the forward exchange contracts that we use for procurement. In addition, we offloaded stock of primarily Spring items to ensure healthy inventory levels, but the gross profit margin declined as a result. In Europe, we increased production on the back of strong sales of Winter products in the first half and ended up with excess stock of some Winter and Spring items, which we then actively ran down through discount sales. In addition, airfreight costs rose above expectations in the third quarter from March to May due to the need to transport additional production orders. The gross profit margin declined as a result of these factors. There are no structural issues at play here. Instead, it might be better to think of it in terms of adjusting sales prices early in the first half of the season to actively digest inventory and reduce the risk of the gross profit margin collapsing at the season.

Q: Is it correct to understand that you feel the indications for your UNIQLO business in North America are good and you have a clear understanding of market needs there?

CFO Okazaki: All the indications are extremely good. Sales at newly opened stores are very strong, so the demand is definitely there. We have no plans to change our approach on new store openings. We want to continue to open new stores with a keen focus on medium-term prospects.

Q: One year has passed since UNIQLO Greater China CEO Ning Pan came to the results briefing on July 11, 2024 to talk about the structural reforms that were being pursued in the region. How has the situation changed compared to one year ago?

CFO Okazaki: We told you one year ago that roughly half of the reasons behind the operation's recent struggles were external and half were internal, and I don't think that has changed. There are a number of issues of which we are aware. First, the fact that we had not been able to create sales floors and develop product mixes that truly satisfied local demand. We have taken definitive steps to improve this issues, and things are getting better. Next, we are proceeding with our scrap and build policy as planned and are definitely reaping the benefits of that persistence, as with the UNIQLO Chengdu store for instance. In terms of marketing, our marketing strategies in the Mainland China market are functioning well thanks in part to enhanced cooperation with global marketing teams, and the response has been good. In terms of independent store management, we are pursuing a long-term approach, so the past year has not yielded any dramatic changes. Employee awareness however is certainly evolving, and the local store management concept is being more widely and deeply embraced. We have a large number of extremely talented employees in the Mainland China market, so they are extremely responsive in terms of adapting the way they approach and conduct their work. I believe that promoting these kinds of initiatives will generate positive benefits from fiscal 2026 onwards.

Q: The UNIQLO Japan operation continue to display strong momentum even though year-on-year increases in demand from overseas visitors will have run their course. Can this strong performance continue in fiscal 2026 as well?

CFO Okazaki: We want to repeat this success in fiscal 2026 as well. UNIQLO has always been a familiar brand for customers in Japan but, recently, we have been incorporating new elements into core UNIQLO products, such as UNIQLO:C sweat pants and UNIQLO and JW ANDERSON straight jeans, sparking fresh demand among existing customers. If we can firmly promote the appeal of these products, I think customers in Japan will become familiar with the new UNIQLO features and purchase these products as core items rather than transient fads. That is what we should encourage to happen going forward.

A large proportion of the growth enjoyed at UNIQLO Japan stems from rising domestic demand, not just overseas tourist-driven demand. Having said that, demand from overseas visitors is not showing any sign of abating at this stage. Based on these observations, I believe that we will be able to encourage sufficient growth across the operation as a whole in fiscal 2026 and beyond.

Q: What kind of new store opening strategy will you consider once the current structural reform period is completed at UNIQLO Greater China?

CFO Okazaki: One key achievement while pursuing these structural reforms is just how deeply the concept of independent store management has permeated the business. The Mainland China market has many large cities, so it is important to build a strong presence in each city by building stores that can operate as regional flagship stores and showcase the UNIQLO brand. At the same time, it is important to unearth further local demand and realize deeply rooted community business by developing highly convenient store networks centered around those flagship stores and encouraging local e-commerce sales. I think it is important to do this before focusing on expanding store numbers.

Our share of the Mainland China market is still small and we need to develop a wider coverage. Once we have progressed these initiatives to a certain point, we will be able to once again accelerate store openings at a faster clip.

Q: What changes are emerging since new management and team leaders took charge at GU?

CFO Okazaki: The first challenge for GU was that the brand focuses on products that capture mass fashion trends and on creating shop floors and store displays that excite not only younger customers but customers of all ages. Unfortunately, GU's product mixes and marketing were not insufficient to support that challenge. To address this issue, some powerful members from UNIQLO product development formed a new team with GU members and have been working together on product development for over six months now. In the same way as we did with UNIQLO-differentiated LifeWear, the team has been considering how to develop a similar model that befits the GU concept, and developing new products with that goal in mind, sometimes successfully, other times not so successfully. The Fall Winter ranges that have already been introduced have met with a good response. I think we will be able to execute this process to an even higher level come next Spring Summer season. After that, I hope we will prepare products that will enable us to establish a unique GU position, coupled with effective marketing.

The second issue is that GU has aimed to participate in the same digital consumer retailing industry as UNIQLO, but its level of implementation was not sufficient. That resulted in lost opportunities associated with inventory shortages and excesses, which, in turn, resulted in lower gross profit levels and inefficient operations from a cost perspective. Tomokazu Kurose, who took over as GU President and CEO from April 1, is an extremely good leader with stellar executive follow-through that he developed during his long experience at UNIQLO. I think the level of execution and thorough management at GU is definitely increasing now that we have a strong and highly talented mix of members with UNIQLO experience and original GU expertise.

Addressing these two challenges will bring us much closer to realizing the GU brand we originally envisaged. It is still a work in progress, but I think we will see considerable improvements in the first half and second half of fiscal 2026, and that we are now getting things right.