

“UNIQLO’s on a recovery track” – a false sense of security

Tadashi Yanai

FAST RETAILING CO., LTD.

Chairman & CEO



My name is Tadashi Yanai and I am the CEO and Chairman of FAST RETAILING CO., LTD..

Revenue up, profit down

**“UNIQLO’s on a recovery track”
– a false sense of security**

FAST RETAILING
CO.,LTD.



The first of half this year was a disaster for us. While customer numbers rose and boosted revenue, we still suffered a fall off in profits.

During the six month period to February 2005, only October proved to be a good month for our sales. But we went on under the false illusion that this positive trend would continue through November, December, January and February.

We were suffering from a false sense of security, comfortable in the understanding that “UNIQLO was now on a recovery track”. In actual fact, this illusion led to a less than stringent set of management judgments and a fall off in profits.

We were unable to capture and meet the needs of the market and the needs of our customers. Basically, we had veered off our market track.

Products to suit the seller

Lack of garments that strike a chord with customers and make them really want to buy.

Industry experts thought the products were good but customers were not satisfied.

FAST RETAILING
CO.,LTD.



The clothing industry environment during the six months to February was admittedly extremely tough not least due to the unusual weather patterns which dampened sales across the board. However, that being said, we also recognize that we did not offer enough garments that really struck a chord with the customer and made them really want to spend their money. We intend to go back over our garment lines with a fine toothcomb and determine one by one whether our products are really attractive to our customers or not.

In addition, some of the products on offer during the first half clearly ignored the desired trends in the marketplace. They were developed simply because they suited the tastes of industry participants or “industry experts” and paid precious little attention to what the consumer really wanted. Of course such products were not going to sell.

You cannot sell products that pay more attention to manufacturer’s taste and convenience and fail to capture the real needs of the customer. We had lost sight of what exactly the customer needed and what the customer wanted. We had strayed away from our mass trend.

Tough external environment

Missed opportunity to smoothly offload winter goods.

FAST RETAILING
CO.,LTD.



This year industry conditions were so tough that we should even have been discounting winter products as early as November or December.

Unfortunately, we failed to recognize the severity of the industry conditions since we were so tied up with promoting our campaign products. As a result we missed the opportune timing to offload excessive inventory of winter goods.

By the time we finally realized the need to offload inventory, it was already January. We began discounting positively on winter goods from January but really by then it was too late. We failed to react swiftly enough to changes in the marketplace.

Second half sales

Starts off tough in March

Branching out into new areas

As for the second half of the business year, things started out tough again with a difficult month in March.

However, we expect things to pick up from April now that we are into the summer season products including casual taste items in which UNIQLO is traditionally strong such as T-shirts and polo shirts.

For instance, once again we are planning to offer an even more elaborate range of print T-shirts this year. In addition, we will be paying even greater attention to quality materials with our EXTRA FINE COTTON T-shirts and polo shirts. And we are also planning to branch into the sportswear arena with our new range of "BODY TECH" products.

Providing customers with recognized quality of a global standard is vital.

FAST RETAILING
CO.,LTD.



We issued a declaration on global quality at the beginning of the business year. I am convinced that this strategy is still a solid one. I maintain my conviction that we should create products of a global quality that anyone in the world would want to buy and create stores of global quality that anyone in the world would want to browse in.

There's no point in participating in this business unless you provide customers with recognizable quality of a global standard.

It is true that we offered some garments in the first half that were still sub standard. For instance, some garments made the overall silhouette look strange or used new materials which made the clothes feel hard. Basically we failed to get the balance right on some products – yes we were using better quality materials but the design was too simple and the end product unsatisfactory.

Looking back over our previous campaign products, the ones that have been successful were those that promoted highly-finished garments most desired by the market. It is fair to say that the products chosen for campaigns in the first half did not necessarily meet these criteria. We did not pay enough attention to this trend even in the early planning stages.

The extremely tough first half fall in profits will at the very least force us to rethink whether we are really and truly meeting the needs of our customers. I intend to ensure that we do this genuinely going over every product in turn. We will consider each product to see if it really fits the market trends and our customer needs and we will have no qualms about changing whatever we feel is necessary. This is the approach that I plan to see implemented diligently across our whole product range.

Review and tighten up UNIQLO operation, challenge new related businesses.

FAST RETAILING
CO.,LTD.



From this fall, we plan to expand our UNIQLO operations into the US, South Korea and Hong Kong. This is not simply an exercise to expand our UNIQLO presence in new markets but is more a quest to create a global brand that will stand up in any global market. Our aim is also to strengthen our overall UNIQLO product quality and appeal by gaining experience in the most competitive of global markets.

We also made a decision in March this year to incorporate shoe retailer ONEZONE CORPORATION into the FAST RETAILING group thus winning us a foothold in the footwear market. We will be aiming for the number one position in the footwear chain industry.

With this expansionary policy, we are not simply looking to diversify our business strengths by challenging new areas. Rather we expect to gain valuable inside experience and thus generate valuable synergy benefits in whatever apparel area it might be.

The performance of LINK THEORY HOLDINGS (the developer of the *theory* brand in Japan & US), in which we purchased a stake last year, has been extremely good. I feel this is due to the generation of clear synergy benefits that combine and complement the mutual strengths and offset the mutual weaknesses of LINK THEORY HOLDINGS and FAST RETAILING. We plan to continue to search positively for good M&A opportunities that will enable the FAST RETAILING group to solidify its management strengths and help the group in its growth strategy with the ultimate aim of becoming a 1 trillion yen company.

Finally, I would just like to reiterate our future position. We will certainly be conducting a full review and tightening up of UNIQLO's current operations. And at the same time, we will continue to challenge new related businesses in our quest to become a 1 trillion yen company by the year 2010.