

Analysts' meeting Q&A

You can view text of the main questions asked on April 8, 2010 about our second quarter results for the six months to February 2010. Part of the content has been edited for the sake of brevity and clarity.

Q1: Regarding UNIQLO International, would you be able to give an indication on the forecast for UNIQLO International and how many stores you plan to open next financial year? Also, what is your approximate operating profit target for UNIQLO International?

A1: President Yanai: As I mentioned before, we plan to double and triple our sales from UNIQLO International. In terms of profitability, we are aiming to achieve a 20% operating profit margin – the same as UNIQLO Japan.

Q2: One factor contributing to the improved gross profit margin in the first half of the financial year for UNIQLO Japan was the effect of a strong yen felt due to some products being purchased at spot rates. How influential was this? Furthermore, are you planning to make further purchases at spot rates in the second half?

A2: Onishi CFO: Approximately half of the improvement in the gross profit margin year on year in the second quarter was due to exchange rates. We do not foresee any such effects in the second half of the fiscal year. As sales significantly increased above our forecast in the first half, the amount we could not cover by exchanging forward contracts was conducted at spot rates. Please consider this an irregular occurrence.

Q3: Please explain the reasons behind the increase in the number of large-format UNIQLO stores to be opened in the second half of the fiscal year. Profitability is a concern if store numbers are being increased unnecessarily. Also, won't the new stores cannibalize sales at existing ones?

A3: President Yanai: Currently, UNIQLO is the tenant most sought after by shopping centers. Over the last one or two years, we have received more and more offers from shopping centers and department stores for our shops to be included in their facilities. This is why our store numbers are increasing. Perhaps our new stores will cannibalize existing ones, however, we hope to do all we can to prevent this. Looking at the number of store openings and store closures, you can see that we actually have quite a number of closures. We are closing stores and continuing to open new ones because we are in the business of transforming our stores in line with the times. As a result, I don't think there will be a cannibalization effect. For example, even if a developer invited us to open a new store, we wouldn't do so if there were already significant coverage by existing stores.

Q4: In your presentation, you said that the Production Department will be moved to China. What are the advantages of this?

A4: President Yanai: By moving production and R&D to China, we can work more closely with our production plants there to design products. As a result, I think we can make products in line with the demands of customers and improve the finished quality of our products. At the same time, production adjustment on a SKU (stock-keeping unit) basis will be easier to carry out than before.

Q5: Recent news has reported that FAST RETAILING is considering listing itself overseas. Could you provide any more information on this?

A5: President Yanai: Given the current state of Japan's economy, I am concerned about whether being listed in the Japanese market alone is enough. Therefore, the possibility of being listed on markets overseas will be considered and I think we must be prepared to be able to do so at anytime.

Q6: Regarding UNIQLO Japan, was a production adjustment carried out to some degree based on sales in March?

A6: President Yanai: Every week we are monitoring our production schedules, therefore we are already implementing a total volume adjustment. Not only for spring and summer items, but production adjustments including fall and winter wear are also being carried out.

Q7: Will there be an increase in production in this year's fall and winter HEATTECH products? For example, are there any plans for a 20 or 30% increase?

A7: President Yanai: Considering that we ran out of HEATTECH around December, we plan to manufacture and sell much more than last year and do so in a way that we do not run out of stock, although I cannot give you a concrete figure.

Q8: You explained that marketing was a factor in the sales slump in March, however, do you feel that some changes in consumer purchasing patterns or trends have taken place? What kind of approach should UNIQLO take if the market environment shifts to one where products with somewhat higher prices will sell?

A8: President Yanai: I think the environment may have changed from abnormal circumstances we have seen up until now. That said, although the Lehman shock was really quite shocking and the consumption of luxury goods in particular dropped significantly, both sales and revenue for Theory and COMPTOIR DES COTONNIERS have recovered considerably. I think Europe and the U.S. are recovering much better than Japan.

I think that consumption in Japan will recover, but not at a rapid pace. In other words, I think things will not improve suddenly because we are in the midst of a restructuring of the industry. I think a “new normal” environment will begin to emerge. When this happens, I think we can use it to our advantage. The success of UNIQLO’s Paris global flagship store is an indication of this. The French people are very fashion conscious, but rather than buying expensive clothes, they choose to wear a combination of different garments. I think that Japan too will experience this kind of consumer trend. For this, I think that basic clothes, such as those from UNIQLO, are perfect for use in combination with other clothes in order to incorporate seasonal trends. And of course, the quality is good. The term “basic” probably brings to mind products that are very cheap, of poor quality and not suited to any particular trend, however, with UNIQLO clothes, we sell the opposite of these types of products – clothes that can be worn in combination with leading brands.

Q9: What is the reason for the rise in the SG&A ratio for the second quarter?

A9: Onishi CFO: With strong sales in the first quarter, many customers were inconvenienced as a result of crowded buying areas in our stores. The rise in the SG&A ratio is a result of increased store staff costs in order to process customer transactions more quickly.

Q10: UNIQLO International achieved very strong results in the first half. How about sales of spring and summer products?

Q10: President Yanai: Spring and summer items are selling well. As always, sales are strong at our stores in Paris, New York, China and Hong Kong.