

Analysts' meeting Q&A

You can view the text of the main questions asked on October 8, 2010 about our business results for the full year to August 2010. Part of the content has been edited for the sake of brevity and clarity.

Q1: You predict a fall in operating income for the full year through August 2011. Is that basically the worst-case scenario?

A1: Tadashi Yanai, President, Chairman & CEO – First, our estimated fall in profit probably came as a bit of a shock. However, we have experienced similar circumstances in the past, and so we decided to estimate a fall in profit to avoid inconveniencing investors later. Of course, I want to generate results over and above the forecast. I believe it is not really good for listed companies to announce overly optimistic business estimates, and so it was my intention to announce the most realistic estimate possible.

Q2: You estimate that your gross profit margin in the business year to August 2011 will fall 3.2 percentage points in real terms year on year. What is the biggest factor at play here?

A2: Tadashi Yanai, President, Chairman & CEO – The biggest factor underlying our estimated fall in gross profit margin is the expected increase in markdowns. We are not going to post same-store sales growth of 30% year on year as we did last year. We expect the need for markdowns to increase on a year-on-year basis, which means they will return to a level in line with the typical year. The second factor is the rise in the cost of materials. The price of cotton, for example, has escalated, and this is pushing up the cost of materials.

Q3: Your forecast for new store openings at UNIQLO International in the business year to August 2011 is roughly the same as for the previous year. Why is this?

A3: Tadashi Yanai, President, Chairman & CEO – The opening of new stores outside of Japan is important, but I believe that training our employees, and creating a uniform human resources framework is even more important. I want to hire top graduates as employees and management candidates in Asia, and develop truly capable management personnel in every regional operation. Our full-year estimate for new store openings is indeed similar to the previous year. But I believe we will see this figure rise sharply from the end of this fiscal year and into the next.

From this business year, we are planning to hire 300 people locally to work as store managers and in more senior positions. I want to expand this figure to 1,000 in the following year and to 1,200 in the subsequent year. If we fail to train such personnel, we can open as many stores as we like, but we will not be able to attain the standards for stores and corporate management overseas that we insist upon in Japan.

In addition, we are significantly altering our strategy in regard to new store openings in China. To the extent possible, we plan to open large-format stores in the future. I also want to open stores in the most prime locations. Due to this emphasis on opening large-format stores, I expect sales floor area to expand at a faster rate relative to the number of stores in China.

Having said that, I, myself, am not satisfied with the number of new stores planned to open this business year overseas. I want to see us reach a stage where we can open 200 new stores outside of Japan each year. However, the opening of new stores has to be accompanied with the right level human resources development, so I want to pursue this target in tandem with the training and development of sufficient personnel.

Q4: If you employ large numbers of new graduates overseas, won't that increase your costs in the future?

A4: Tadashi Yanai, President, Chairman & CEO – This will not have a significant impact on our cost ratio given the magnitude of our net sales. In addition, these new employees will be working and gaining the experience required to become store managers, which will translate into increased productivity, so I don't see any business cost issue.

Q5: In light of the delayed demand for fall goods, are you adjusting production to stagger the introduction of your winter product lines?

A5: Tadashi Yanai, President, Chairman & CEO – The demand for fall goods was indeed extremely unfavorable in September. However, we have seen a rebound in sales from the end of September and into early October. We will adjust the introduction of new product lines and individual product items as well, as is our practice.

Q6: In your presentation you explained that the escalating cost of materials will impact your gross profit margin this fiscal year. Can you elaborate on this?

A6: Tadashi Yanai, President, Chairman & CEO – The sharp rise in material costs does not relate to just one material this time, but in fact to the price of all materials. In addition to the sharp rise in material costs, processing fees have also risen in China. We will make every effort to absorb these increased costs, but we do expect them to impact our gross profit margin in the second half of fiscal 2011.

Q7: I understand that the UJ marketing failure impacted UNIQLO Japan performance. Since you conduct marketing globally, is there a risk that international sales could also fall? Will you continue global marketing in the future?

A7: Tadashi Yanai, President, Chairman & CEO – I don't think the UJ marketing failure had anything to do with global marketing. I believe our marketing of UJ failed because we promoted the UJ brand in a vague, obscure way. Our advertising to date has focused on one product line at a time. However, I believe the "UNIQLO UJ" idea was too hazy and that the message that UNIQLO was pushing these jeans did not reach the customer. Another factor underlying the UJ

marketing failure was that the market was not focused on jeans but on other pants instead.

I believe our past and current marketing works well worldwide, and, indeed, is highly regarded outside of Japan. So, yes, I want to produce consistent global marketing, as befits a global brand.

Q8: I believe that your standard range for gross profit margin in the past has been between 46 to 48%. However, your 46% estimate for the year to August 2011 is at the low end of that range. Is there a problem with your inventory?

A8: Hidetsugu Onishi, CFO – When compared against other years, this year’s estimated gross profit margin has not deteriorated significantly. Over the past few years, the margin has been extremely good and so the estimate for the current business year through August 2011 looks low by comparison. However, we have had years in the past when the margin has come in around 46%. Regarding the content of our inventory, we do have some regular core products from the spring remaining, but we are adjusting this inventory over the fall, and so it will not pose a problem.

A8: Tadashi Yanai, President, Chairman & CEO – Naturally, we adjust production in response to sales. If we had a lot of spring inventory, we would have adjusted that in this fall’s production figures. If we could not adjust that this fall, then we would just adjust production next spring and transfer the remaining items to achieve the appropriate inventory. There is no problem with our current level of inventory.

Q9: You forecast a fall in profit for the new business year. Has that led you to make any changes to your mid- to long-term strategy?

A9: Tadashi Yanai, President, Chairman & CEO – As a company, we have always put priority on our mid- to long-term strategy. In the past, we never really experienced much volatility in performance and so we were always extremely optimistic. That did prove inconvenient for our investors at times, and so, this time, we are being extremely conservative with our business estimates. That said, I will be looking to boost actual performance as far above these estimates as possible.

Q10: In the slide presentation, you talked about your broad future business development focusing on Global One, and ensuring that each regional business is well established. What needs to be done at the local level and what things should be done on a global basis?

A10: Tadashi Yanai, President, Chairman & CEO - I believe that a company should be firmly established in its local region—it should be an American company in America, a Chinese company in China. For example, in New York, Theory can be the main face of the company. In Paris, COMPTOIR DES COTONNIERS can be the main face of the company. In other words, the company that operates COMPTOIR DES COTONNIERS also operates UNIQLO.

When we talk about Global One, we are not referring to a global UNIQLO, but to the need for all group companies to operate under the same framework. That means running an operation according to our uniform, worldwide business practices. We are currently transforming all of our business and information systems in pursuit of this aim.

Q11: Can you explain about this information system in more detail?

A11: Tadashi Yanai, President, Chairman & CEO – The development of this business information system is both large-scale and innovative. We are talking about a system covering the whole corporate framework, and so it will include our entire business information systems including product and store management, marketing and merchandising.

A11: Hidetsugu Onishi, CFO – The new information system recently has been introduced in finance, accounting and human resources, and we will be expanding the scope of this system to other areas in the future.