

## Analyst Meeting Q&A

### **Business results for the 12 months from September 2011 through August 2012**

Below are excerpts from our analyst meeting held on October 11, 2012. The following text, which was edited for the sake of brevity and clarity, includes the main questions asked about our business results for fiscal 2012, or the 12 months from September 2011 to August 2012.

**Q1: In Mr. Yanai's presentation, you talked about "taking price leadership", but what exactly are you aiming for here?**

**A1: Tadashi Yanai, President, Chairman & CEO** – When you enter a new market it is very difficult to build a decent business without fashion leadership and price leadership. When I say price leadership, I mean "low prices". Take our low-priced casualwear brand, g.u., in Japan for instance. The g.u. label is currently making significant inroads in the Japanese market precisely because it possesses both fashion and price leadership. In fact, UNIQLO has learned a lot from the g.u. experience. One of the most important lessons is that, as a new player in a market, you can't enjoy any real success without first establishing leadership in terms of both price and fashion.

**Q2: Do your plans for internet sales in America cover the whole of the United States? What kind of logistics or operational model are you working with?**

**A2: CEO Yanai** – We plan to launch internet sales across the United States. San Francisco is close to Silicon Valley, a global mecca of high-tech firms, and so we plan to base our online operation there. In time, I would like to develop that base and its services further to cover all global markets.

**Q3: Can you tell us the combined loss reported by UNIQLO USA and UNIQLO UK in fiscal 2012 and also by how much you expect to reduce those losses in fiscal 2013?**

**A3: Takeshi Okazaki, Group Senior Vice President & CFO** – We don't disclose this type of concrete data but we are looking to reduce the fiscal 2012 loss by half in fiscal 2013.

**Q4: Sales at UNIQLO International fell short of target in fiscal 2012 by approximately ¥5.0bln. By the end of the third quarter, back in May, the market probably had an idea that UNIQLO International was likely to underperform but can you tell us more about why performance fell so far short of target? Also, could you rank markets such as the U.S., U.K., China and South Korea in order of performance?**

**A4: CFO Okazaki** – If I were to rank the degree of shortfall for the four nations, the order would be the U.S., China, South Korea and then the U.K. Indeed, approximately half of the shortfall was generated by UNIQLO USA. However, bear in mind that the American operation is currently in a brand building phase and we are injecting a considerable amount of leading investment in order to strengthen the UNIQLO brand in the United States. A considerable proportion of the loss reported by UNIQLO USA can be attributed to that leading investment and the fact that sales didn't expand far enough to absorb the additional brand building expenditure. In addition, with hindsight, we would say that our estimates for the fourth quarter from June to August were too optimistic.

Regarding China and South Korea, at the briefing to announce our third quarter results for the three months from March to May 2012 held in July, we said that UNIQLO had not really felt any impact from the economic slowdown in these two nations. That was indeed our impression at the time but, once into the fourth quarter from June to August, we too began to feel the impact of the slowdown in the local economies. In particular, we noted other apparel retail competitors were reducing prices and that is why we decided to offload excess summer inventory early in China. Finally, the shortfall at UNIQLO UK was not that large.

**Q5: You said that you decided to sell off excess summer inventory in China early this year, but has the sales trend picked up since then? Have you experienced any boycotts in China? Some media outlets are reporting that Mr. Yanai said the recent anti-Japanese riots have “impacted sales”. In addition, in your outlook for fiscal 2013, you explain that you are adopting a cautious sales forecast in China. Does this mean you expect same-store sales to contract year on year?**

**A5: CFO Okazaki** – Our stance on China remains basically unchanged. We did begin to feel the impact of an economic slowdown in China in the fourth quarter of fiscal 2012 and we have taken those conditions into account when formulating our estimates for fiscal 2013. However, our forecasts are not based on an assumed contraction in same-store sales but on a slower pace of growth in China than we have enjoyed to date. This adjustment in expectations is reflected in our design and production planning, marketing expenses and personnel costs. By paying close attention to all of these factors, we still expect to boost profit in fiscal 2013 even with a slower pace of sales growth.

To be honest, we were affected to some extent by anti-Japanese riots in China in mid to late September but the direct impact of any unrest does not appear to have been lasting.

**A5: CEO Yanai** – The Chinese market has the potential to become the world’s biggest market in the mid to long-term, but at this point in time, nearly all the current players in China are either small, local companies or Hong Kong based firms, and therefore UNIQLO is only competing directly with ZARA and H&M. I think that UNIQLO has proved a stronger player than ZARA and H&M to date. Even if our business does slow down temporarily due to a deterioration in the local economy, we still plan to open around 100 new stores each year in China. In fact, I want to propel the operation into a winning position at the earliest possible opportunity by building a network of 1,000 stores.

My view is equally aggressive on the manufacturing side. Many people have wondered about China’s future following such high increases in factory wages and the slowdown in economic conditions. However, China’s efficiency as a manufacturing location is second to none. Chinese factory workers are highly skilled, and there are no other factories anywhere in the world that can boast tens of thousands of high-quality personnel. Our apparel industry is very labor intensive, and manufacturing our garments in China is highly efficient. For that reason, I expect production in China will continue to increase going forward.

**Q6: Regarding your planned global marketing, what is your current level of TV advertising in China and South Korea and how much would you be prepared to expand this going forward?**

**A6: CEO Yanai** – I want to air more TV commercials than local brands do. I also want to select local popular celebrities to appear in each country's TV commercials. I hope that airing such effective commercials will help us become the dominant number one player in both China and South Korea.

**Q7: Inflation has boosted prices in the U.S. apparel industry over the past year. What does this mean for you as you seek a position of leadership in both price and fashion?**

**A7: CEO Yanai** – I think we need to work to regain our dominant position in terms of price leadership. Compared to other global competitors, we are fortunate to be located closest to the apparel manufacturing nations of China, Indonesia, Bangladesh, Vietnam, Cambodia and India. In addition, our relationship with local companies is not one of buyer versus supplier, but rather one of joint garment creation. The products that we manufacture are all high-quality garments. No other SPA manufacturer/retailer submits single-lot orders as large as ours, or orders mass volumes of a single product in the same material. We are able to create extremely high-quality clothing at extremely low prices. We need to use that more to our advantage in order to gain greater price leadership.

When I talk about gaining fashion leadership, I mean creating clothes that customers feel they really want to possess. I don't just want to create simple fashion products. It is much more of a rewarding and worthwhile challenge to incorporate fashionable elements into our basic core clothing. We seek perfection not purely in the design, but on materials, functionality and extra detail as well.

Local economies around the world are suffering— in Europe, in Asia and in the United States too. But it is in tough times like these that we can begin to visualize new avenues and structures for the retail industry. The retail industries which have enjoyed huge growth worldwide were not born in times of economic boom. Instead, they fostered strong growth in times of hardship. We feel that now is the time to open new stores when conditions are tough, and we intend to do that aggressively. We are fortunate to have an abundant cash flow which enables us to open as many stores as we are able in as many regions as we wish.

**Q8: I have no doubt that you will be able to open mass numbers of stores in China and South Korea, but are you sure that you can proceed so smoothly with new store opening plans in the United States?**

**A8: CEO Yanai** – We opened a large-format store in a New Jersey shopping mall in September. In fact, I was initially somewhat concerned about opening a store there with a shop floor of 3,300sqm, but it has proved a great success, and we have been flooded with offers from major American developers to open outlets. There are only approximately 10 major shopping mall owners in America and so we feel that, by joining forces with these major developers, we will be able to develop a nationwide store network in the United States.

**Q9: I think your recent experiments with different types of store formats such as the UNIQLO MARCHE and BICQLO are interesting but are you paying enough attention to further innovations in the clothes themselves? You are expecting same-store sales at UNIQLO Japan to hold flat year on year in fall/winter 2012 but do you have any potential new hit products in your core range right now?**

**A9: CEO Yanai** – I find myself saying this all the time, but creating a core product is not a simple thing. Having said that, if the extremely strong sales of our HEATTECH range last winter are anything to go by, I think sales of our AIRism brand of spring/summer innerwear (Sarafine and Silky Dry) will be even better. I also think there is potential in our pants/trousers range. I feel that some of our designs that are currently selling millions of units worldwide have the potential to become hit products. What I find more interesting in the current climate is that, as the world economy slows, prices of raw materials are likely to stabilize, and so companies who are in a position to buy large volumes of raw materials will be able to gain price leadership.