

Analyst Meeting Q&A

First-half business results for the six months from September 2012 through February 2013

Below are excerpts from our analyst meeting held on April 11, 2013. The following text, which was edited for the sake of brevity and clarity, includes the main questions asked about our business results for the first half of fiscal 2013, or the six months from September 2012 through February 2013.

Q1: This is a question about UNIQLO operations in Asia. In the fourth quarter of fiscal 2013 from June to August, you discounted products in response to the economic slowdown, and you also said that UNIQLO sales in China were dampened by the diplomatic dispute over the Senkaku islands. Since then, the situation appears to have turned around considerably, with sales recovering in China, and South Korea experiencing a boom. How did UNIQLO turn its sales performance around so strongly at a time when demand for clothing in Asia is generally weak?

A1: Tadashi Yanai, President, Chairman & CEO – I think that the UNIQLO brand has permeated the Asian markets fairly well. We have experienced some headwind related to the diplomatic issues between Japan and China and Japan and South Korea. However, I think it is a positive thing that the UNIQLO brand has permeated the Asian markets so strongly that it hasn't been uprooted by any unsettled background circumstances. In addition, regular consumers in China appear ready, at last, to start buying again, and overall consumption is rising thanks to the rapidly expanding middle-income population. With a population of 1.3 billion in China, the nation's major cities such as Shanghai are now on a similar scale to major cities in Europe and the United States. The middle-income population is predicted to grow significantly in other Asian nations outside of China as well, and I believe this represents a momentous business opportunity for us.

At the announcement of our business results in fall 2012, diplomatic disputes between Japan and China and Japan and South Korea did have an impact on our sales performance. As for the economic slowdown experienced by those countries, while it probably impacted retailers of expensive products, UNIQLO clothes are such an integral part of people's everyday lives that our sales weren't badly affected. I think that China is currently experiencing a high-growth consumer environment similar to that experienced in Japan in the mid-to-late 20th century. I expect other Asian countries will display consistently strong consumption growth, especially in major cities.

Q2: In Mr. Yanai's presentation, you explain your target of opening 200 stores in Asia each year, split between 100 new stores in China and 100 stores in the rest of Asia. But I get the feeling that your tone is weaker than in the past. Have you made any changes to your strategy for new store openings?

A2: CEO Yanai – The 200 annual target for new stores in China and other parts of Asia is only our current target. In future, I would like to expand this target to 300 or 400 stores. I expect that we will probably be able to build a system that can support 200 new store openings per year within approximately one year. The Asian region harbors huge market potential with 4 billion people living in an area stretching from China to India. As the middle-income population continues to expand, we should also be able to open more and more stores.

Q3: Will you be looking to strengthen your price and fashion leadership further at UNIQLO Japan or do you feel that you have done enough already?

A3: CEO Yanai – I think that it is necessary to display price leadership and fashion leadership at all times, but this doesn't mean we should frantically discount our products. If we compare fall 2012 with spring/summer 2013, we can see that the consumption environment has changed in Japan. Customers are beginning to communicate a desire to buy. But, whether they are buying an expensive, mid-range or low-priced item, consumers are becoming increasingly discerning about which brand to choose. Therefore, I believe it is necessary to show price and fashion leadership at these times as well.

Q4: Regarding your expansion plans for UNIQLO USA, you say that you will begin opening new stores in earnest from fiscal 2014 onwards. Can you tell me just how many stores you plan to open and when?

A4: CEO Yanai – I think we could open a store in any shopping mall in the United States if we wanted to. However, we have to be able to recoup our investment when we open new stores, and so we are currently creating and refining a profitable store format for the United States. As a company, we also need to develop a corporate structure and train personnel that can support a full-fledged store network. Our plan is to develop a network of large-format stores in the United States and this means training three people of store-manager caliber for each store. UNIQLO USA is now getting to the stage where it can support 20 new store openings per year.

Q5: This is a question about your pricing policy at UNIQLO Japan. Despite the shortfall in the gross margin in the first half, you have left your estimate for the second-half gross margin unchanged. Does this mean you plan to reduce the number of limited-period sales in the second half?

A5: Takeshi Okazaki, Group Senior Vice President & CFO – We have not revised our forecast for the gross profit margin in the second half, or the six months from March to August 2013. We did discount aggressively in the first half, but we plan to restrict discounting in the second half. In other words, we will limit the range of products offered for limited-period sales.

Q6: In terms of UNIQLO's international operations, you explained that UNIQLO products are developing a loyal following not only in Asia, but also in Europe and the United States. What kind of changes have you noticed?

A6: CEO Yanai – In the United States, more and more people are becoming aware of the UNIQLO brand on both the East and the West Coast. UNIQLO is launching a new LIFE WEAR concept. For example, LIFE WEAR focuses on clothes that make you look slim but are comfortable too. LIFE WEAR suggests new ways to mix and match clothes previously not seen in Europe and the United States. Our unique, fresh way of using neutral colors to enhance outfits is also being gradually recognized by customers who have never experienced such a concept with American apparel. In addition, because we control our clothes creation process from the material right through to the end product, consumers in

both Europe and the United States are beginning to appreciate our overwhelmingly competitive standards of quality.

Q7: I think the signing of Global Brand Ambassador agreements with Novak Djokovic, Kei Nishikori and Adam Scott will definitely help increase awareness of the UNIQLO brand and boost its global brand value, but isn't this an expensive way of going about it? I guess the agreements must cost you several billion yen each.

A7: CEO Yanai – The sports arena is unfettered by national borders and so it is a very effective way to help us branch out onto the global stage. However, the agreements do not cost several billion yen. Both Novak Djokovic and Adam Scott have become UNIQLO Global Brand Ambassadors, so they help inform people about the UNIQLO brand and our products in their role as goodwill ambassadors. We expect that the overall benefits of these agreements in terms of global marketing will far outweigh the cost.

Q8: Can you tell me about the impact of recent foreign exchange movements on your business? Have procurement costs increased in line with the weakening yen?

A8: CFO Okazaki – Given that we hedge against fluctuations in the dollar/yen exchange rate, we should be protected against any negative impact from the weakening of the yen for approximately one year. Beyond that, we also conduct hedging with a three-year span and so we don't expect to feel a sharp impact from any sudden weakening of the yen within that period.

Q9: As you develop UNIQLO operations further in Europe and the United States, will you need to offer a greater range of sizes?

A9: CEO Yanai – We already manufacture 2XL sizes, and even 4XL sizes on some ranges. These sizes can also be purchased online in Japan or at our Ginza flagship store in Tokyo.