

Analyst Meeting Q&A

Business results for the three months from September through November 2013

Below are excerpts from our analyst meeting held on January 9, 2014. 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 quarter of fiscal 2014, or the three months from September to November 2013.

Q1: You said that UNIQLO International outstripped your initial targets for the first quarter by a considerable amount, but how much exactly? Also, how much of this strength was due to changes in foreign exchange rates?

A1: Takeshi Okazaki, Group Senior Vice President & CFO - We don't disclose that information, so I can't comment on the figures in detail. However, I can say that both sales and profit continued to expand at a pace that far exceeded our expectations in China, Hong Kong and Taiwan, South Korea, the United States and Europe. Performance in other parts of Asia was also strong, but within expectations. All together, the September-to-November quarter proved a pretty good one for us.

The various exchange rates that we used in our calculations are detailed on P23 of the first quarter results presentation, so you could use these to estimate the impact on of any changes in foreign exchange rates.

Q2: Have you introduced any changes to UNIQLO's production or distribution system, or do you plan to make any changes in the near future?

A2: CFO Okazaki – We have not made any significant changes to our production or distribution systems over the past three months. Obviously, we are going to have to introduce some radical changes to these systems as we extend our global reach. We are currently preparing for this, but I don't have anything concrete to report yet.

Q3: Did the launch of the 10 new stores you opened at UNIQLO USA in the first quarter go as planned? Is the U.S. operation now on track to break even in fiscal 2015?

A3: CFO Okazaki – We adhere to a mid-term expansion strategy in the United States. The first phase of this grand strategy involved the opening of global flagship and other large-format stores largely for advertising purposes and to boost brand visibility. We then entered the second phase of development last year where we look to boost profits by opening numerous regular-sized stores in shopping malls. That is exactly the stage we are at now, and we have done a really good job with the latest new store openings. In fact, we are exactly where we envisaged we should be right now. I can't give you an exact date on when UNIQLO USA will break even, but we are certainly working on it.

Q4: How did the operating income generated by UNIQLO Japan in the first quarter compare with your initial targets? You said that business expenses for the first quarter came in ¥4.0bln

below target. You also mentioned that the gross profit margin will likely contract in the second quarter, and that you will have to work to reduce business expenses. Could you comment further on how you view UNIQLO Japan's profit performance in the first and second quarter?

A4: CFO Okazaki – As I mentioned, sales unfortunately fell short of target at UNIQLO Japan in the first quarter. The weather continued warm throughout the month of October and it wasn't until mid-November that temperatures began to drop and sales of winter items picked up. Unfortunately this came too late to sufficiently boost sales for the quarter as a whole. I think total gross profit margin for the quarter was reasonable, thanks to our efforts to control the number of items offered for limited-period sales. The first-quarter operating income totally expanded year on year was also pretty respectable, especially since business expenses came in below target over those three months.

Regarding the second quarter from December 2013 through February 2014, as we mentioned earlier, we will conduct more discounting. While many people say that economic conditions are improving overall, we have noted that customers are still extremely sensitive on price. Recently, customers have been searching for bargains, and focusing a large proportion of their purchases on discounted items. What does this mean for our gross margins? The second quarter will undoubtedly be tough. Of course, we will try to make up for this by curbing business expenses, but we are still fairly cautious on operating income in the second quarter.

Q5: You have reduced your estimate for UNIQLO International store numbers at the end of August 2014 from 644(estimate in October 2013) to 629 stores. It looks as if you are now expecting fewer new store openings in Taiwan and Southeast Asia. Could you clarify this?

A5: CFO Okazaki – We have made some minor adjustments to the overall figures, and, yes, this is due to changing conditions in Taiwan and several other Asian nations. However, this is more a result of delays in the development of the commercial malls where our stores are to be located, or the fact that some contracts have taken longer to negotiate than we initially expected. A few new store openings may have been delayed due to insufficient marketing momentum on our part. However, we have made no changes to our new store strategy. We would have liked to continue with the original plans, but the factors that I have just mentioned forced us to make some slight revisions to the expected number of new store openings in the current business year.

Q6: You said that your plans to open new stores in U.S. malls are going well. Is this likely to influence your future view on new store openings in the United States?

A6: CFO Okazaki – UNIQLO USA is doing well, but this does not mean that we are going to change our strategy there. Rather, we will continue with our step-by-step plan to build store networks on the East and West Coasts by opening approximately 20 new stores each year. We are unlikely to increase the pace of new store openings for the time being.

Q7: What is fuelling the rise in operating profit margins at UNIQLO International? Is it stronger same-store sales growth, or is it related more to your gross profit margin and business costs?

A7: CFO Okazaki – Strong growth in same-store sales is certainly contributing considerably to the improvement in the operating income margin.

Q8: You said that you had to carry over some payments for advertising and promotion at UNIQLO Japan from the first to the second quarter due to discrepancies in annual schedules. How much are you talking about here? You mentioned that you expect sales to continue to recover in the second quarter, but will you have to introduce some cuts in expenditure or are you going ahead with your original expenditure plans?

A8: CFO Okazaki – We don't disclose the number, but it represents around a quarter of the total ¥4.0bln. It is a simple matter of shifting some payments from the first to the second quarter.

Q9: Do you have a concrete strategy for controlling business expenses in the second quarter?

A9: CFO Okazaki – We have not compiled any quantifiable targets for spending cuts in specific areas, but we will try to curb expenses across the board.

Q10: You said UNIQLO Europe performed strongly in the first quarter. Can you tell us which countries performed the best, and why?

A10: CFO Okazaki – UNIQLO operations in the United Kingdom and France performed particularly well in the first quarter. This was the result of gradual improvements in UNIQLO brand awareness, and improvements in our own marketing strategies. Our product mix is now better suited to the local market, and our store design and displays have improved considerably. It is really good to see that these positive developments have led to such a large increase in same-store sales.

Q11: Operating income at Global Brands expanded 9.2% year on year in the first quarter. This seems a little low. Can you tell us why?

A11: CFO Okazaki – GU generated double-digit growth in both sales and income in the first quarter. France-based Comptoir des Cottonniers also reported gains in both sales and income, while operating income fell short of target at Theory. I think the contraction in profits at Theory USA was the largest factor weighing on the segment's overall performance.

Q12: Do you expect the reduction in profit at the Theory operation in the United States to continue, or was it just a blip in the first quarter?

A12: CFO Okazaki – I think it was just temporary. The market in United States has becoming competitive in prices, and I think this was largely responsible for the fall in that operation's overall profit level.

Q13: You said that the rising level of inventory at UNIQLO Japan was due to increases in some

basic items and also in-store inventory related to upgrades in store interiors and displays.

Does this recent inventory management policy also apply to UNIQLO International?

A13: CFO Okazaki – In some areas, yes. The store refurbishments apply generally to undersized stores anywhere if we can improve customer service by upgrading fittings and fixtures. Having said that, there is no need to upgrade fittings in stores with low sales per square meter. If stores in some countries require upgrades, we will do it. By the same token, some countries just don't need it.