Fast Retailing Co., Ltd.
April 9, 2015

Analysts' Meeting Q&A

Fiscal 2015 1H (September 2014 to February 2015)

Below are excerpts from our analyst meeting held on April 9, 2015. The 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 2015, or the six months from September 2014 through February 2015.

Q1: You reported a strong set of results for the first half of fiscal 2015, but your business estimates for the second half of fiscal 2015 appear cautious. Is this because you think your intended price rises might have a dampening effect on upcoming performance?

A1: Tadashi Yanai, Chairman, President and CEO – Price increases are a very important issue for customers, and so we decided to announce that first in order to get the bad news out of the way. The fact of the matter is that the Japanese yen has now weakened from 80 yen against the U.S. dollar to 120 yen. The 5% increase in prices that we introduced in fall 2014 was the absolute minimum increase at the time, and that is no longer sufficient. As a company, we have always committed to provide absolute, undeniable quality. In order to keep doing that, we have decided to increase our prices on 20% of our upcoming product numbers. That would result in an overall average price increase of 10%. We are doing this because we want to ensure we can continue to create good products, and provide truly great clothing for people all over the world to enjoy wearing.

Q2: You explained that your corporate yen rate has also gradually weakened, pushing up internal costs. How much has your corporate yen rate weakened?

A2: Takeshi Okazaki, Group Senior Vice President & CFO – We don't disclose figures for our actual corporate yen rate, but I can say that it has been on a gradual weakening trend. In addition, we can't hedge 100% against changes in exchange rates, because we sometimes have to procure foreign exchange at spot rates to pay for additional production orders, for instance. That also impacts our corporate yen rate. We will start offering the higher-priced items from the 2015 Fall Winter season, part of which will be on sale during the second half; but, we haven't increased the prices of the Spring Summer items which are currently in the stores, so we are likely to experience a squeeze in the cost of sales ratio. Altogether, we expect exchange rates will exert an adverse impact on our gross profit margin in the second half, and that is why we have been fairly cautious with our second-half overall business forecasts.

Q3: You expect losses will expand at UNIQLO USA in the second half. Is this because the UNIQLO brand is still not sufficiently well known in the suburban areas where you are now opening stores? Can you also tell us what are the biggest challenges facing your UNIQLO operation in the United States right now?

A3: CEO Yanai – Insufficient brand visibility is definitely an issue, but I think internal factors were more to blame here because we hadn't managed to ensure full implementation of our Global One, Zenin Keiei management principals. Going forward, I intend to channel the expertise and experience of the entire FR Group into helping improve our U.S. operations, from stores to products and services. These issues have only recently emerged because we have accelerated the expansion of our presence and store numbers in the United States.

Our Global One, Zenin Keiei management style involves encouraging all staff to adopt the mindset of a manager, and seek the best available global solution to any issue they may face. The only way to ensure full implementation of these principles is for members of our senior management team to meet face to face with local managers and thrash out the best way to improve things. This does not just apply to the United States, but is the same in Europe and Southeast Asia as well. One of the reasons why we have been so successful in China is because we moved one third of our Japanese HQ staff to China. We need to show a similar level of commitment and action in order to succeed in the U.S. market.

Q4: Your prices in China and South Korea seem to be higher than in Japan. Is that an indication of your brand power in these markets? Could you talk about your global pricing strategy?

A4: CEO Yanai – I believe prices reflect how customers judge products. In China, some people may think that higher the price, better the quality. But, fundamentally, UNIQLO is a casualwear brand providing everyday clothing, and so I would like to see us maintain prices at similar levels to that in Japan.

Q5: On a three-year horizon, you are targeting sales in the United States of ¥100 billion and operating profit of ¥10 billion. How exactly do you plan to achieve those targets, in terms of both sales and profits?

A5: CEO Yanai – By bringing the standard of UNIQLO USA up to the level of our business in Japan. While we offer similar products in the United States as we do in Japan, the overall standard of our U.S.

business processes is inferior to Japan. For instance, the United States experiences greater shortages of certain in-store items, and there are problems with store layouts, the level of in-store service, and product distribution. I believe that, once our U.S. stores achieve a similar operational standard to our stores in Japan, they will be able to secure much higher levels of sales.

Q6: Previously, you have mentioned the need to adjust your products to better suit the needs of U.S. customers. What has you been doing recently in terms of developing products specifically for the U.S. market?

A6: CEO Yanai – Given the fact that casualwear was born in the United States, we are building product development centers in both New York and Los Angeles. Looking at the big picture, it is more a question of creating products with global appeal rather than exclusively for individual markets. In other words, while we might develop a new product in the United States which is inspired by the needs of the U.S. market, that product would need to appeal to broader global markets as well.

Q7: You said that operating profit outstripped your expectations in the first half of fiscal 2015, but how well did each of the three business segments, UNIQLO Japan, UNIQLO International and Global Brands, perform individually? In addition, you have revised down your operating profit estimate for the second half by ¥10 billion. Can you give us a breakdown by segment for that as well?

A7: CFO Okazaki – Both UNIQLO Japan and UNIQLO International outperformed in terms of operating profit in the first half, with operations in Greater China and South Korea proving especially strong. In other words, Japan, Greater China and South Korea made larger contributions to profit in the first half. The downward revision in our operating profit forecast for the second half of fiscal 2015 was due mainly to anticipated changes at UNIQLO Japan.

Q8: You plan to increase the price of your 2015 Fall Winter ranges, but which items in particular are you looking at? Is it 20% of all products?

A8: CEO Yanai – We will increase prices on 20% of our product numbers. That would boost the average price of our entire product range by 10%. In terms of specific items, we will be looking at our denim, cashmere, merino wool ranges, etc.

A8: CFO Okazaki – We won't just increase the price of identical items. Instead, we will offer improved ranges with slightly different design features, and raise the pricing line on approximately 20% of our product numbers. The extent of the price increase will differ from product to product, and we expect the overall average price increase will likely settle at approximately 10%.

Q9: You want to make your state-of-the-art Ariake distribution center into the world's largest digital flagship store. How will the profit structure differ from regular stores, and will profitability be higher?

A9: CEO Yanai – Since this is the first experiment of its kind in the world, there is no way of knowing what the final profit structure will be and how profitable it will be. All I can say at this stage is that, if the project goes well, then I think it will be very profitable. If it fails, then it will likely make a loss. But we can't escape the fact that the world is moving towards a union between real and virtual worlds. That means enabling customers to order products via various digital channels, and our distribution centers and factories to deliver products and brand information directly to customers. In order to survive in the retail industry going forward, we need to develop a new business which successfully combines our real and virtual retail resources.