

## Q&A on ONEZONE CORP acquisition

Event: News conference by FAST RETAILING CO.LTD. on acquisition of shoe retailer ONEZONE CORPORATION (formerly MARUTOMI GROUP CO., LTD)

Date: March 3, 2005

Attendees:

Tadashi Yanai, current Chairman & CEO of FAST RETAILING CO., LTD.  
(and new Chairman of Board at ONEZONE CORPORATION)

Naoki Otoma, current Senior VP, member of the Board of FAST RETAILING CO., LTD.  
Takao Kuwahara, new Company President of ONEZONE CORPORATION

### Introductions

#### **FAST RETAILING chairman Tadashi Yanai**

My name is Tadashi Yanai and I thank you for coming today.

We are always considering ways to enter into new businesses within the apparel industry. Shoes are very closely linked to our current clothes business and so today we purchased a footwear retail chain. In a fashion sense, clothes and shoes go together as one. That is why we took on the challenge of selling shoes that customers will really appreciate and at the right price. FAST RETAILING's knowledge of retail chain store development and our strong personnel resources can surely help there.

ONEZONE CORP has at last emerged from the corporate rehabilitation program with a clean slate. But we are basically starting from zero here and so we are very keen to create a footwear retail chain that Japan can be proud of. I hope that you will support us in this effort.

#### **ONEZONE CORPORATION new president Takao Kuwahara**

My name is Takao Kuwahara.

Mr Yanai said that we would be starting again from zero here. However, don't let us forget that ONEZONE CORP already has 330 stores that open for business every day and that welcomed many customers today alone. One thing that we really must do straight away is to begin meeting the demands of those customers as soon as possible. Over and above that, one really key issue that we will be working on is how to coax those customers who don't currently frequent the stores. It is in this area that we are truly starting from scratch.

But the most important thing is to transform ONEZONE CORPORATION as soon as we can into a bona fide company so that the current staff members, who have worked and waited with gritted teeth these past few years, can feel glad they stuck it out this far.

### Summary of Q&A session

**[Question 1] Can you tell us about ONEZONE CORP's position in the footwear retailing industry and does it manufacture the products that it retails itself? .**

[Answer 1] In terms of market position in the footwear industry, ONEZONE CORP ranks around fourth in Japan. Other major players in the industry include Chiyoda, ABC Mart and New Step.. ONEZONE CORP does not manufacture its own shoes but buys them in from various suppliers and then sells them onto the customer in its stores.

**[Question 2] Can you tell us about possible synergy benefits with UNIQLO?**

[Answer 2] Clothes and footwear are obviously very closely linked in terms of fashion but we feel that UNIQLO and ONEZONE CORP are very different business entities. Each has a very different corporate history and, before we can think of closer potential synergies, we feel that it is important to transform ONEZONE CORP into an independent business unit that can grow steadily and turn and profit. As we did with the UNIQLO brand in the clothing industry, we feel that it is possible to transform ONEZONE CORP into a profitable company enjoying stable growth in the footwear industry. If synergy benefits are to be enjoyed, the first thing to be done is to recreate ONEZONE CORP as an independent entity which can develop its footwear chain and can grow along side the UNIQLO brand and stores.

**[Question 3] Will you be displaying ONEZONE CORP products in your UNIQLO stores and vice versa?**

[Answer 3] No. What we are looking to do here first is to transform ONEZONE CORP into an independent business entity. It is not a question of displaying the footwear in UNIQLO stores simply because we are running a chain of shoe stores.

**[Question 4] What attracted you most in this acquisition of ONEZONE CORP?**

[Answer 4] It had to be the store network. We feel that you only really reap the benefits of chain store development once you have more than 100 stores in place. In that sense, ONEZONE CORP's network of 330 stores is a big weapon in the competitive retail industry.

**[Question 5] When compared to UNIQLO's store network, how does the ONEZONE CORP store network rate?**

[Answer 5] I think ONEZONE CORP's store network is roughly in line with where UNIQLO's was at the very beginning. A large number of stores have been opened in the suburbs to speed up the network creation. The footwear on offer has been purchased directly from suppliers and the real merits of the chain store have not yet been fully reaped. For instance, if you look at the average sales per store, ONEZONE CORP generates around 70 or 80 million yen, only a fraction of UNQILO's 500 – 600 million yen. We feel that we can improve on that record with our knowledge of product development and store management. We feel that we can talk with the suppliers going forward and cooperate to create some footwear products that differentiate ONEZONE CORP from other manufacturers and offer greater merit to the customer.

**[Question 6] Are you planning to completely rethink the product strategy and store network?**

[Answer 6] The products and the stores are extremely important but first we want to create a really good company in terms of corporate culture. Having created what we feel is a good company, we then want to work together to create a mutually beneficial approach on products and store management. We feel that we have a completely clean slate in terms of the products and stores and we very much hope that, as Mr Kuwahara mentioned earlier, we can create a firm a few years down the road in which its staff can be proud to take part.

**[Question 7] Will anything change in the stores – the name or the price for instance?**

[Answer 7] We do not have any immediate plans to change the store name. And the prices etc are not going to change in a day. First we will be looking at the reality, working out what we really can feasibly do and only then will we look to amend whatever we feel needs changing.

**[Question 8] How much do you plan to invest initially in store renewal etc?**

[Answer 8] We plan to invest just as much as ONEZONE CORP can cope with. If you look at current profit levels, it would probably amount to a few hundred million yen or so for now.

**[Question 9] How many staff do you plan to send from FAST RETAILING to ONEZONE CORP?**

[Answer 9] We only expect to send the absolute minimum – just a few I would say. We would rather see the current staff and those who join the company in future work at it themselves and create an independent future for themselves.

**[Question 10] The number of employees at ONEZONE CORP is less than its total number of stores. How does this work?**

[Answer 10] We said in our press release that ONEZONE CORP has 185 employees. But some of the stores are run on a commission basis and if you include those store managers then the total number is more like 500.

**[Question 11] Do you want to see ONEZONE CORP manufacture its own footwear in the future as FAST RETAILING does with its UNIQLO brand?**

[Answer 11] I don't think that would be possible in the near future. However if you don't have that as your ultimate goal then it would be difficult to truly differentiate your products and fully reap the benefits of chain store development. First though, I want to study in detail what type of business operation is currently in place including product makeup, purchasing methods etc. Once we have done that, I would like to introduce improvements that will generate the most efficient management structure. That could involve certain products being manufactured for sale and some products being bought in directly. We could even look to introduce a mid-term three-year plan for instance.

**[Question 12] How far would you like to see ONEZONE CORP expand in the end?**

[Answer 12] This is purely my own dream but I feel that whatever type of business you are in your ultimate aim should be the number one chain store in that industry. I feel that the footwear industry has that potential. However at the same time I am well aware that we have to work in increments – create realistic goals and work out what to do in the first year, second year, third year and so on.

**[Question 13] Is the ONEZONE CORP subsidiary included in your strategy to create a 1 trillion yen sales group by year 2010?**

[Answer 13] Yes, it is a part of that strategy.

**[Question 14] This question to Mr Yanai. Footwear aside, are there any other new areas of the apparel industry that you would like to try?**

[Answer 14] The UNIQLO brand has taken a large share of the low price-zone casual clothes market. However if you look at overall demand for apparel in Japan, there are still many areas where we do not have a presence and I feel that our knowledge and experienced personnel could help many companies in the apparel industry generate significant synergy benefits. Whether it be through M&A or business tie ups, I think there are many areas worth considering – dressy or formal clothes, casual clothes in a higher price zone than UNIQLO, casual clothes that are more fashion driven rather than basic wear.

**[Question 15] Will you be looking mainly at firms emerging from rehabilitation as future M&A targets?**

[Answer 15] You could say that this M&A was an example of a “rehabilitated firm” but, basically, we are looking to conduct M&A with firms that won't require huge manpower. In the case of ONEZONE CORP, for us it is a new step into the footwear industry, but the company itself already has many stores that it runs every day and we don't feel that it will require a large input of manpower. If a similar opportunity comes up, then yes you could say that we would look again at “rehabilitated firms” for M&A.

**[Question 16] Can you tell us how much this acquisition cost?**

[Answer 16] Since this involves the other party, I would like to refrain from telling you the specific amount. As a rough guide however, the total paid was less than ONEZONE CORP's shareholder capital forecast of ¥2.6 billion for the year to February 20, 2005.

**[Question 17] Can you tell us a little about the new company president Mr Kuwahara's background?**

[Answer 17] Takao Kuwahara was born in 1969 and is currently 35. Since joining FAST RETAILING CO., LTD. in April 1994, he has been heavily involved in UNIQLO store management. He has worked as Director of store operations through February of this year and he became the new president of ONEZONE CORPORATION on March 3, 2005.