

FAST RETAILING 2006 THIRD QUARTER BUSINESS RESULTS: ANALYST MEETING Q&A

FY2006 Third Quarter Results Meeting (Date: July 13, 2006)

You can now see the major question and answer session from the “March – May 2006 quarter results announcement conference” in text form. Some of the content has been edited or revised for the sake of clarity.

Q1: I have a question about the balance between sales and gross profit margin at UNIQLO Japan during the third quarter. I believe the trend for results to date has been that when sales are favorable, then the gross margin improves and when sales are less favorable, then the gross profit margin falls. In the third quarter to May, sales fell short of initial forecasts, but, despite that, the gross profit margin improved. Has anything changed in terms of internal corporate structure for instance?

A1: (Masa Matsushita, Executive Vice President, FAST RETAILING CO., LTD.)

First on the question of balance between sales and gross profit margin, we focused more on gross margin as opposed to sales in the third quarter results, and the trend was for a firm profit. It is not necessarily a link between sales and margin where if sales fail to expand, then the gross profit margin will fall. For instance, in the previous business year, sales rose but the gross margin fell and, consequently, we suffered a reduction in profit levels. We just work hard at the local operational level with the aim that this will lead in the end to a profit.

Q2: Can you give us an idea how much existing store sales you can generate next business year?

A2: (Masa Matsushita)

On existing stores for the coming year, we have not yet calculated forecasts for the next business year and so I can't announce anything here today. However, I think that the eventual figure will not cause any great surprise.

Q3: On the reason why the gross profit margin improved, was it a factor involving improvements in production, or was it more to do with successful retail?

A3: (Masa Matsushita)

We were able to improve our gross profit margin this time around because we had fewer products requiring a mark down on price. We have not made any changes to our mark-up ratio. There are often times where the volume of orders does not in the end match the actual sales, in other words, when too much has been ordered or sales don't go as well as expected, then it is often necessary to drop the price. However, the process ran much more smoothly this year compared to last year.

Q4: On your new stores plans, can you tell us a little bit about your plans for different store formats such as the large scale stores, etc.?

A4: (Masa Matsushita)

We think that large-scale store will be the future driver of growth. We haven't yet finalized the number of large-scale stores that we would open next year, but I think it would have to be at least 20.

Q5: Mr. Wakabayashi mentioned earlier that you are going to change your store layouts. Have you actually been able to come to a decision, with your experience and experiments at large-scale stores so far, as to just what type of shop floor you are going for? If there is a certain format that has actually helped boost sales already, could you tell us about it? Do you also intend to change the layout in regular stores as well?

A5: (Mr. Takahiro Wakabayashi, Senior Vice President, UNIQLO CO., LTD.)

We have already achieved some success in our large stores with using low-level furniture and fittings, VMD, and coordinated shop floors. We now plan to spread this experience throughout our store network. Indeed, if we don't spread any benefits across the entire network, then the impact on our overall performance would be small. We are planning to change the store layout in all of our regular stores from this autumn. In terms of giving an actual example that gave a concrete boost to sales, while we have examples of particular things we did that boosted sales of specific products in that store, we don't yet have a clear idea or any figures in terms of overall impact. We will continue to study various options and their effect as we go along.

Q6: I think that the number of designed & produced during season (short-cycle products) is increasing, but can you tell us about the actual gross profit margin on such products?

A6: (Masa Matsushita)

There has been no particular change in the mark-up ratio on these project products during the period. Products designed during the period tend to either sell out completely or not sell well at all compared to our core garments, so some volatility is bound to occur there. However, we feel that the gross margin is not much different on average compared to our core garments.

Q7: Please can you tell us about the goodwill that will be generated by the additional purchase of stock in the French company developing the comptoir des cotonnier brand? How much of this do you expect to write down over the next business year?

A7: (Makoto Yoshitaka, Vice President & Entrusted Operating Officer, FAST RETAILING CO., LTD.)

The goodwill generated by the additional purchase of stock in comptoir des cotonniers conducted on June 30, 2006 is around ¥13.0bln. This is not included in the actual results for the third quarter to May, but we plan to account a goodwill payment of just under ¥0.6bln in the fourth quarter to August 2006 under SG&A expenses. We expect a total of around ¥2.0bln for the entire

business year.

Q8: The goodwill related to this additional stock purchase is ¥13.0bln and the initial stock purchase incurred goodwill payments of around ¥5.0bln. How do you plan to account for that amortization going forward?

A8: (Makoto Yoshitaka)

We conducted an amortization of the goodwill incurred with the initial stock purchase in one single unit, so that write off is now complete.

Q9: You talked about a rough number of 20 new large-scale stores next year, but when you open new large-scale stores, will any nearby regular stores suffer an impact in terms of sales? Can you also tell us your future store plans for the regular store network?

A9: (Masa Matsushita)

When we open a new large-scale store, we sometimes scrap neighboring stores based on the theory of cannibalism or competition with oneself. We will first fix the number of large stores to open in the coming year and then we will determine how many regular stores should be added depending on that. But, at the very least, the number of regular store openings will be larger than the number of large store openings.

Q10: Mr. Wakabayashi talked earlier about introducing a new system that devoured and digested information from the actual stores, but how many new items will be created under this new system?

A10: (Takahiro Wakabayashi)

We are asking our stores about all sorts of issues. It is not just a case of creating new products through this store information system, but also, for instance, what is needed to further boost sales of products current on offer in the stores. For instance, we are collecting a multitude of ideas and opinions from the stores each week on our advertising flyers, sales methods, etc. You could view it as a system that takes this information as a base for discussion between the stores and our sales department and to eventually help reach the right decision.

Q11: You are opening a flagship store in the US in the autumn. Are you looking to gain a marketing effect from the move, or do you think this will lead to an acceleration in store openings?

A11: (Masa Matsushita)

The biggest aim behind our decision to open flagship stores is that we feel that we can best display and tell customers about what we believe to be UNIQLO at its very best. In the case of the flagship store to open in New York's Soho, we would like to open more stores in that area. In terms of the timing and the number of stores, we would first like to open the flagship store, study it's performance and then give the go ahead for store openings.

Q12: Are you considering any M&A deals in order to speed up store openings in the US?

A12: (Masa Matsushita)

When you purchase a company, it comes with operating rights. In other words, you are buying a brand. Therefore, it would not make sense to conduct an M&A and then change its stores to the UNIQLO name. If we were to buy a platform for our business in the US through M&A, then UNIQLO could benefit in terms of building a good marketing strategy and this could accelerate the opening of UNIQLO stores. Any M&A would bring us expertise in various fundamental areas such as store opening capability in the US, ease of hiring staff, training of personnel, management style. However, we do not envisage conducting M&A in order to transform all of that company's stores into UNIQLO stores.

Q13: How great a discrepancy was there between your own forecasts for the three months to May and actual performance at the domestic UNIQLO operation in terms of net sales, gross profit, costs and operating income?

A13: (Masa Matsushita)

Net sales fell short of target by about ¥2.0bln but gross profit exceeded forecast by a few hundreds of millions of yen. Cost control produced a total there a few hundred million yen below budget and so operating income exceeded forecasts by again a few hundred million yen.

Q14: There are some subsidiaries that are doing better than others but is the overall sense that things are going to plan in the broader group?

A14: (Masa Matsushita)

Yes, if you calculate the overall performance of our group subsidiaries then you will probably realize that performance falls slightly short of our initial plans. However, since the domestic UNIQLO is relatively strong, we still feel that we can achieve our overall consolidated business forecasts on final profit.

Q15: What is the response to your fourth quarter and autumn/winter products? Are you concerned given that sales were very strong last winter?

A15: (Takahiro Wakabayashi)

Since performance in June went as expected, we are working internally to ensure that performance in the months of July and August also falls in line with our forecasts. On the response to our autumn/winter garments, we have started to display products in our stores that were created through true joint cooperation with the New York R&D center. We will be giving our shop floors a new look this autumn and are reviewing our customer service structure. We are working to produce the very best results possible.

Q16: Mr. Wakabayashi talked about an internal information system. Can you tell us a little about what type of structure this system will take and how it will be introduced?

A16: (Takahiro Wakabayashi)

The internal information system is a system into which ideas and opinions can be freely written. We will be going to collect various opinions and then asking the stores for a wide range of responses. We shall be asking stores to respond not only about products but also about our advertising flyers, shop layout, etc. on a weekly basis. In relation to products, currently, each section sends out questions once a month to which a broad response is required. Other measures include a frequent formal exchange of views via email. That works well since the internal atmosphere in our firm is conducive to the free exchange of views via email. We have 700 stores and over 10,000 staff who fulfill a SPA-type role disseminating information from the stores all the way back along the production chain. We feel that this new internal information system can help activate those inherent strengths.

Q17: What is the expected timing between a suggestion made through the internal information system and that suggestion being reflected in actual products?

A17: (Takahiro Wakabayashi)

On the question of how long is the cycle of reflection in design and product introduction into the stores, for instance, we took opinions on “cut and sew”, or simple cotton products such as T-shirts, after the Golden Week holiday. Those opinions have already been incorporated into the products now on display in the stores in July, so the lead-time for summer goods is just under 2 months. Going forward, we are looking to restructure our supply chain management system to make this process even faster.

Q18: LINK THEORY HOLDINGS has revised down its business forecasts. In terms of governance of an equity method affiliate, can I ask your opinion on this?

A18: (Masa Matsushita)

Of the 5 members of the theory board, 2 are external directors seconded from FAST RETAILING. But it is not us who hold the management rights but theory's president Mr. Sasaki. If Link were a consolidated subsidiary, then we would hold the management rights ourselves and we could keep a firm grip on governance and appoint a president. As an equity method affiliate, we can enter a discussion by participating in board meetings, or we can continue to initiate active communication by voicing our various concerns to ensure that we can cooperate at various levels and avoid any final surprises.

I would now like to close this conference on FR's third quarter results for the three months to May 2006. Thank you for participating.