

Press Conference

FAST RETAILING GROUP New brand 'g.u.'
G.U. CO., LTD. Operational strategy conference

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Participants:

Mr. Tadashi Yanai

Chairman & CEO, FAST RETAILING CO., LTD.

Mr. Shuichi Nakajima

President, G.U. CO., LTD.



Mr. Shuichi Nakajima President, G.U. CO., LTD.

Introduction

Mr. Tadashi Yanai, Chairman & CEO, FAST RETAILING CO., LTD.

Thank you for coming today. I am Tadashi Yanai. I want to make our new brand, 'g.u.', into a new operational mainstay for our business with sales of ¥10.0bln in the first business year and sales in excess of ¥100bln as soon as possible. I believe that the low price range clothing market that 'g.u.' will target is still largely under developed in Japan, but I also believe that it is a potentially huge market. What we are aiming for with 'g.u.' is, in a phrase, "the pursuit of absolute low price + fashion". Other developed countries already enjoy a large thriving market here. For instance, in the US, you have Walmart, Targett, Old Navy. In the UK, you have New Look, Primark, Top Shop or the large supermarkets such as Tesco or Asda. And, in mainland Europe, you have companies such as H&M that are shaping the low price clothing market. I am convinced that there is a large market potential in Japan as well, and I feel that we can definitely achieve growth over a short period. I hope that you can share in this enthusiasm.

Question and answer session

(Some of the content has been edited or revised for the sake of clarity.)

Q1: You have said that the 'g.u.' will aim to realise a minimum lead time between clothing design, manufacture and sale in the stores, but just how long do you mean by this? And how does this compare with the lead time at UNIQLO?

A1: Shuichi Nakajima

The lead time is completely different depending on the product so it is hard to give a clear answer here. And, since the volumes manufactured will be completely different at 'g.u.' and UNIQLO, it is impossible to compare, so I will refrain from answering.

Q2: Taking bottoms for example then, what would be the production lead time there?

A2: Shuichi Nakajima

Even within the bottoms category, this differs for jeans, skirts, etc. We would just like to say that we will ensure manufacturing lead times will be conducted with the greatest possible speed. But

since we are just getting underway, it will be sometime before I can give you concrete details in terms of the number of days for each product.

Q3: You have said that you have a sales target of ¥10.0bln for the year to August 2007, but can you tell us your profit target for that same period?

A3: Shuichi Nakajima

I can't give you details of our profit targets at this stage.

Q4: I think we understand well the difference on price between 'g.u.' and UNIQLO, but could you tell us more about how you view the differences on customer targeting and product quality?

A4: Shuichi Nakajima

We believe that UNIQLO and 'g.u.' can exist side by side as completely different entities. UNIQLO seeks the ultimate quality, while 'g.u.' will seek to offer fashion at the lowest possible price. In addition, there are also differences in a variety of other areas over and above price. First, for 'g.u.' our customer target range is between the ages of 20 and around 35, and the target is clearly incorporated in our product development process. Of course, by splitting our product range into a series of themes, we can also seek to broaden our customer target range. But, by clearly differentiating our products, our store image and our product development, we will be developing the 'g.u.' brand with clear and obvious differences to UNIQLO.

Q5: Is it correct to assume that you shall be developing products of similar quality to UNIQLO?

A5: Shuichi Nakajima

UNIQLO now deals with many extremely high value added products such as cashmere sweaters and air tech jackets. At 'g.u.', we shall be looking rather to create fashion items out of extremely versatile but regular fabrics, than to use high value added fabrics.

Q6: Since both 'g.u.' and UNIQLO will be players in the same commercial area, you could imagine cases where the two brands might conflict with each other. Do you think there could be some competition with UNIQLO or are the target areas so different as to make this unlikely?

A6: Shuichi Nakajima

Since UNIQLO has around 700 stores nationwide at present, of course we are going to overlap in terms of commercial areas. However, we feel that the 'g.u.' and UNIQLO brands have started from such different perspectives with such different aims, that we are convinced they can co-exist successfully.

Q7: What made you choose Daiei Minami Gyotoku store as the location for your first 'g.u.' brand store? And does the decision to develop 'g.u.' first in the eastern Japan Kanto region have anything to do with the refurbishment and reform of Daiei?

Q7: Shuichi Nakajima

The reason why we picked a location in the Kanto region to launch the very first 'g.u.' brand store was that we thought it would be better to limit the geographical area to ensure good management and to ensure that we could keep a very close eye on things. In addition, we also want to concentrate our new store openings for now in view of the greater cost effectiveness of advertising, etc. When we were discussing where to locate our 'g.u.' stores, we were also in discussions with Daiei, and we were able to come to a decision to open our first 'g.u.' store in Daiei Minami Gyotoku store.

Q8: I would like to ask Mr. Yanai a question. Can you tell me why you appointed Mr. Nakajima to run the 'g.u.' brand?

A8: Tadashi Yanai

The reason why I picked Mr. Nakajima to head up this operation was based on his experience at UNIQLO. In his final role as head of product management at UNIQLO, Mr. Nakajima had overall responsibility for the entire UNIQLO range. He has a vast experience across the board in both stores and products. Mr. Nakajima is a member of UNIQLO's senior management, he has experience of everything in the firm, and he is the most reliable member of our management.

Q9: You said earlier that you would be looking to expand sales to over ¥100.0bln in the near future. Can you tell us roughly how many years from now that will be? And, Mr. Yanai, you said that you want to make 'g.u.' into a new mainstay operation for the FR group. What does that mean in terms of future profit contribution from 'g.u.'?

A9: Shuichi Nakajima

We are hoping to reach that level of sales within 5 years.

A9: Tadashi Yanai

I think a type of operation such as 'g.u.' could attain a level of operating profit above 10%, maybe in the region of 15%.

Q10: I understand that you are looking to offer a wide range of products within a short period of time, but what kind of development method will you be using in order to develop these products within that timeframe?

A10: Shuichi Nakajima

In the case of UNIQLO, nearly all of the functions are conducted in house. They have TAKUMI team (quality control at the factories), R&D centers to plan designs, and a separate production section. By contrast, our present full-time staff at the 'g.u.' headquarters totals only around 30 people. Therefore, we shall be looking hard for outside partners to help support our internal product design. For instance, on product planning, we shall be developing this jointly with staff from within the company and external contributors. But it will be 'g.u.' members that decide, in the main, the makeup of the final garment collection including design, size, etc.

Q11: I understand that you are planning to open around half of the 25 new outlets over this autumn/winter season within Daiei stores. What do you consider the proportion of new store openings within Daiei stores to be from next year onwards?

A11: Shuichi Nakajima

Since we will be launching the 'g.u.' operation this autumn/winter, we shall be considering sales levels post launch before deciding what new store proportions to set for the coming year.

Q12: I would like to ask Mr. Yanai, can you clarify once more for us your intention, as the FAST RETAILING group, to participate in the GMS clothing segment? I think that UNIQLO expanded its market share in the past by luring GMS customers with quality low price goods. Can you tell us the thinking behind the introduction of yet another brand, 'g.u.', into this mix?

A12: Tadashi Yanai

UNIQLO is certainly well known for its low prices. However, when you compare unit prices, the current reality is that there are many more brands that now offer cheaper clothing than UNIQLO. What UNIQLO is actually valued for is its balance between quality and price. As the quality of the garments increases, quality becomes more important to the customer than price. And, as a result, we as a company and Japan as a country now lack a business segment that truly seeks to provide low cost clothing on all counts. As we mentioned earlier, the companies that are growing the fastest in the US and European markets are those that offer the very lowest prices. I think this is the same whether you be a mass marketer or a specialty store. And I want to do the same with the 'g.u.' brand.

That completes this question and answer session for today.

Thank you very much for coming.