

Analysts' meeting Q&A

FAST RETAILING CO., LTD. interim results for the 6 months to February 2008

You can view text of the main questions asked on April 10, 2008 about our interim business results for the six months to February 2008. Part of the content has been edited for the sake of brevity and clarity.

Q 1 : Mr. Yanai, in your presentation, you talked about perfect integration between products, stores and HQ in the second half. What do you mean exactly by this?

A1: Tadashi Yanai – When an organization grows larger, there is inevitably some division of labor. We too divide our sales and product manufacturing head office functions, but because the head office evolves around our stores and our products, we do have a system in place that ensures information on products and stores gets through to the head office, that any issues are highlighted in the joint meetings held at the beginning of each week. Information on our stores and products comes from the point of sale rather than the head office. Our stores and head office share this information and work together to find a solution. It is easy to say but is actually very hard to achieve. However, we have always worked this way over many years, and now is the time to go back to basics and incorporate this fundamental philosophy ever more deeply going forward.

Q2: Can you tell us how you believe the profit structure and in particular the cost structure is changing at your large-format stores.

A2: Makoto Yoshitaka - On the cost structure of large-format stores, it does vary from store to store. However, taken overall, rent ratios and personnel ratios at large-format stores are higher compared to standard-format stores. Therefore, the profit ratio has generally been a few points lower than our regular stores and there is not much change in this former trend. However, we are working now to see how much we can improve the profit structure of large-format stores. Large-format stores still only account for less than 10% of total sales. We will be looking to further improve the profit structure going forward, and to generate a profit ratio that equals or even exceeds that of our regular stores.

Tadashi Yanai – The personnel ratio at large stores is better than it was and is still improving. On the issues of large-format store profit structures, rather than improve the current structure, the aim is also to create large stores with a new type of profit structure.

Q3: What kind of system will you be putting in place to be able to open 100 stores in China?

A3: Tadashi Yanai – We want to be able to conduct an operation in China of similar proportion to that in Japan if possible. If we are aiming for such a scale of operation however, we will need to develop new stores, but we will also need to establish all functions in China

including a Chinese head office to spearhead the store network development. In the extreme, we might need to shift about one third of the functions currently conducted by the Japanese UNIQLO headquarters to China, or at least work with such an intention in mind.

Q4: This is a question about inventory levels at UNIQLO Japan. Inventory levels at the end of February increased compared to the previous year. Is it right to understand that you don't see this as a problem because you stocked up inventory early to enable an early launch of your spring/summer range? Could you explain your view on inventory injection in more detail?

A4: Tadashi Yanai – We feel that in the past we have waited too long to change our seasonal ranges. This year we brought in the new ranges between one and two months earlier than usual with spring garments on display from December and some summer goods in the stores from January. Based on the success of the early introduction of spring goods this time around, we plan to change our approach going forward. We will be looking to sell seasonal ranges as soon as possible to make way for the next season's garments.

Q5 : On the issue of expanding production locations beyond China, can you tell us how you view the standard of sewing and competitive edge of Vietnamese factories for example? In addition, to what extent might you expand the proportion of production conducted outside of China in the future?

A5: Tadashi Yanai – Whether in Vietnam, Cambodia or Bangladesh, high standard sewing factories maintain their high standards wherever you go. Therefore, there are factories in each country of a standard capable of competing with state of the art factories in China. We want to form partnerships with such factories. We would like to be in a position to conduct 30 ~ 40% of production outside of China as early as is feasibly possible.

Q6 : You mentioned the revision to new large-format store opening plans in the second half. Is this due to the revisions to Japan's building regulations?

A6: Tadashi Yanai – Issues surrounding the Japanese building code have been the main factor dampening new store openings. In fact, we are now over six months behind schedule. This is the case for both shopping center stores and roadside stores. We are currently finalizing plans for new store openings in the coming business year. Given that the situation is still somewhat uncertain in Japan, we are looking to speed up store openings overseas in markets such as China.

Q7 : Can you tell us a little bit more about the current situation at Japan Apparel? Three subsidiaries are currently moving towards more business integration, but in what areas do you expect to be able to improve efficiency?

A7: Tadashi Yanai – We have begun considering measures that could lead to a merger in operations at Japan Apparel. As we did with Cabin, we now want to send UNIQLO

personnel to reshape operations and completely recreate everything as if we were starting an entirely new operation. Rather than attempting to improve performance, we are looking to instigate a deep and broad restructuring.

Q8 : You have always determined that you will consider withdrawing from a new operation if it doesn't manage to turn a profit within roughly 3 years. Is there any change in that policy?

A8: Tadashi Yanai – There is no change in this policy. However, the restructuring attempt to date was more an effort to improve rather than completely transform operations. The intention now is to do everything the UNIQLO way, to change the entire structure and send in large numbers of personnel.

Q9: This is a question about your view on gross profit. It seems that you are managing to increase the price of jeans successfully. Do you change the mark up ratio by increasing prices?

A9: Tadashi Yanai – I believe you cannot sell something just because it is cheap. Sales are influenced by whether the product meets customer needs or whether that product is perceived as reasonably priced or not. At UNIQLO, we genuinely want to create truly good products, and we are not about to rush to raise prices. Given the current economic conditions in this country, we wouldn't be able to sell products if we didn't make the utmost effort to provide garments that customers truly value at the lowest possible price. There are some marginal differences between products, but the mark up ratio is fairly standard across the board.

Q10: I think that next year's business hurdles will be set extremely high given the strong performance of the autumn/winter season this year. If you look at past performance, it seems that you alternate a year of rising profit followed by a year of falling profit. How do you plan to boost profit in the six months to February 2009? What areas do you consider require the most attention?

A10: Tadashi Yanai – In terms of our strategy for the autumn/winter season next year, we will just have to make the very most of our strengths. I believe that we can achieve strong sales and profit if we sell genuine high value-added clothing such as fashion basics and garments using high-function fabrics at reasonable prices.

Q11: Of course, we should understand that you are aiming to boost profit in the coming business year as well?

A11: Tadashi Yanai – Of course we are aiming to boost both revenue and profit in the coming business year.

Q12: You have spoken about how UNIQLO International has now entered a new stage, but do you need to envisage a scenario whereby initial investments on store openings increase but profitability falls? Or do you believe that this is not a concern?

A12: Tadashi Yanai – Given that the majority of the acceleration in store openings overseas is going to be in China and South Korea, we do not feel that this will generate a burden on profits or lead to over-investment. Stores in this region tend to contribute positively to profit from an early stage.