

Analysts' Meeting Q&A

FAST RETAILING CO., LTD. third quarter results for the three months to May 2008

You can view text of the main questions asked on July 10, 2008 about our third quarter business results for the 3 months to May 2008. Part of the content has been edited for the sake of brevity and clarity.

Q1: You explained that operating income at UNIQLO Japan exceeded target by roughly ¥3.0bln. What about operating income for the UNIQLO International, Japan Apparel and Global Brands segments?

A1: Makoto Yoshitaka, CFO - Third quarter operating income at UNIQLO International, Japan Apparel and Global Brands came in slightly above target.

Q2: I understand that overall net sales at UNIQLO Japan came in on target and your gross profit margin outperformed. But how did SG&A costs perform compared to budget?

A2: Makoto Yoshitaka, CFO - Total SG&A costs were roughly in line with target.

Q3: In terms of the reasons for the improved gross margin at UNIQLO Japan in the third quarter, you have listed a stronger range of basic garments, and increased in-store inventory. Could you explain in more detail the other reason that you describe as production figures adjustment successfully reflecting views from stores? Has the organization at UNIQLO Japan changed in the past year or so?

A3: Makoto Yoshitaka, CFO - Rather than any specific changes to the fundamental organization of UNIQLO Japan, we believe that our improved gross profit margin can be traced to a stronger coordination between HQ and our stores, and the ability to immediately reflect customer views in the production figures. In addition, the management's strong focus on profitability has now spread successfully throughout our personnel base.

Q4: What kind of new products are you planning to develop after the bra top? Is there any change in the approach or determination to continually develop new hit products?

A4: Makoto Yoshioka, CFO - Our organizational approach hasn't changed, but in the case of the bra top and our HEATTECH INNERWEAR that proved extremely popular with customers in the winter, both products epitomize our efforts to continually design high value added ranges that customers appreciate. Focusing company efforts on product development is a fundamental requirement of business, but we feel that our success reflects our persistence in this area. We also feel that this strong commitment to high value added products has further strengthened UNIQLO's brand visibility.

Q5: Can you tell us if the sharp rise in gasoline prices is generating any differential on customer numbers depending on store location?

A5: Makoto Yoshitaka, CFO - FAST RETAILING is not experiencing a drop off in customer numbers at our roadside stores. We have no evidence that the sharp rise in gasoline prices is necessarily dampening customer numbers at our roadside stores.

Q6: UNIQLO Japan sales have improved just at a time when consumer attitudes have worsened. Are UNIQLO sales closely linked to consumer sentiment?

A6: Makoto Yoshitaka, CFO – I think you are asking me whether there is any reverse correlation with economic conditions behind the improved FR sales performance. No doubt it could be viewed so from a theoretical standpoint. However, I believe that, regardless of the economic environment and consumer sentiment, our strong sales performance results from customer appreciation of the high value-added element offered in our basic products, and offered at a reasonable price.

Q7: Can you tell us about your business forecasts for UNIQLO Japan for the upcoming business year – specifically on the expected rate of revenue increase at existing stores, gross profit margin, and your expected increase in new store openings and shop floor area, etc.?

A7: Makoto Yoshitaka, CFO – To be honest, we are still compiling our forecasts for the coming business year and so I can't give you clear figures at this stage. However, we are basing our forecasts on a flat performance in existing store sales and so we are not introducing products there in such an aggressive fashion. On gross profit margin, we were very successful at controlling inventory in the current business year. We will be looking to further refine that skill to maintain margins at current levels. Shop floor area was growing at roughly 7% year on year at the end of May, but since we haven't finalized our new store opening plans for the coming year yet we don't have a firm figure for this at present.

Q8: I think you can pinpoint the return to basic, staple products and successful sales promotions in this year's product strategy. Will that continue into next year or are you considering any new products for the new business year?

A8: Makoto Yoshitaka, CFO – We don't plan to dismantle the concept of highly functional, value-added basic products. We are not thinking of introducing any completely new concept in our next autumn/winter garments.

Q9: Operating income outperformed by ¥3.0bln at UNIQLO Japan in the third quarter, but you have not revised up your full year forecast there. Why not?

A9: Makoto Yoshitaka, CFO – As you know the overall consumer environment is not great, and since the competition for sales might get tough in July and August, we are being somewhat cautious on forecasts. However, there is nothing on the immediate horizon to indicate any sudden deterioration in business performance.

Q10: How will the merger of three subsidiaries in the Japan Apparel segment affect overall FR business performance next year? How far do you expect to be able to reduce the loss generated by the three companies next year?

A10: Makoto Yoshitaka, CFO – As we explained in the results slide presentation, we are predicting a special loss of ¥1.8bln generated by inevitable store closures and restructuring related to this year's three-company merger. Our top priority in the coming business year will be to boost profitability, and that means we have to improve profitability of the business itself.

Q11: Can you comment on your Mina commercial facilities business?

A11: Makoto Yoshitaka, CFO – Our Mina commercial facilities operation is performing to target. Some facilities were opened this year, but they account for only a very small part of our overall business performance.

Q12: I think you have mentioned your intention to reach 100 stores at UNIQLO China as soon as possible. How many stores are you planning to open in China in the coming business year? Total store numbers at UNIQLO International are expected to reach 55 this year, how many are you expecting to reach by the end of next year?

A12: Makoto Yoshitaka, CFO – Our basic strategy is to open new stores in the Asian region next year including China, Hong Kong and South Korea. However, we haven't finalized the number yet.