

Analysts' meeting Q&A

Business results for three months to November 2008

You can view text of the main questions asked on January 9, 2009 about our first quarter results for the three months to November 2009. Part of the content has been edited for the sake of brevity and clarity.

Q1: I understand that you took into consideration the strong upturn in sales in the first quarter when revising up the full year estimates for UNIQLO Japan. However, can you tell me if you have also taken into account the December performance during which sales were also strong?

A1: Makoto Yoshitaka, CFO – The upward revision to our full-year estimates for UNIQLO Japan reflects actual performance during the first quarter only, namely the three months to end November 2008. It does not take into consideration performance from December onwards.

Q2: What is the current pricing differential between UNIQLO products and your low-cost casual brand g.u. products?

A2: Masumi Mizusawa, IR Manager – Pricing varies considerably depending on the product. But to give you an idea, for example UNIQLO would offer garments cut to pattern costing ¥1,000, while similar types of garments would be offered at g.u. at ¥790, ¥690, ¥590. So as you can see garments are not offered at similar prices, rather g.u. garment prices are one or two ranks cheaper than UNIQLO.

Q3: You ran out of stock on the HEATTECH range but how great does the company consider extra potential sales are here? Some newspapers are reporting that you plan to increase production in the next business year, but have agreed this to some extent with the manufacturers?

A3: Makoto Yoshitaka, CFO – Some items in our HEATTECH range ran out early on and we apologize to customers for any inconvenience caused. However, we did manufacture 2.8 million units as planned and we have achieved sales also in line with initial plans. The HEATTECH material is produced by materials manufacturer, Toray Industries, Inc. Toray has outlaid capital expenditures to facilitate production. However, we were not able to produce more than the original 2.8 million units initially planned for this autumn/winter season. Given that the HEATTECH range has proved so popular this winter, we are planning to produce, offer and sell a larger volume of items in the 2009 autumn/winter season. However, given the fact that this depends on Toray Industries' own capital expenditure levels, we have not yet determined the final figures. We will be approaching that stage soon.

Q4: Can you tell us why the year-on-year increase in notes payable and accounts payable were higher in the first quarter compared to the previous year?

A4: Makoto Yoshitaka, CFO – Since November ended on a Sunday, UNIQLO payment debt increased because of holiday closing, and you don't need to consider this rise to be anything unusual.

Q5: UNIQLO International posted a profit of ¥0.7bln in the three months to November 2008, that is a ¥0.5bln increase in profit year on year. Which geographical areas contributed most to this improved income position?

A5: Makoto Yoshitaka, CFO – The UK, which suffered the worst performance last year, enjoyed the biggest increase in income in the first quarter. The UK was able to generate the biggest improvement in income in the first quarter through November 2008 because the data compares to the previous year when the opening costs of our UK global flagship stores were incurred.

Q6: Operating income at UNIQLO Japan exceeded initial plans by as much as ¥10.0bln in the first quarter, but how did the gross margin compare? Also, how did costs compare versus initial plans?

A6: Makoto Yoshitaka, CFO – Our gross margin increased more than 1 point beyond the initial target in the first quarter. Costs also increased on the back of the upswing in net sales, coming in ¥1.8bln above initial plan.

Q7: Can you tell us how much progress you have made on UNIQLO International new store openings and are you on target?

A7: Makoto Yoshitaka, CFO – We were not actually planning to open stores in the US and in Europe, but new store openings in the Asian region including China, South Korea and Hong Kong are proceeding roughly as expected.

Q8: The initial forecast for the increase in UNIQLO Japan existing store sales during the second half to August 2009 remains unchanged. However, economic sentiment has worsened considerably since the beginning of the business year last August. Do you see this trend as a negative for your business, or do you consider growing consumer frugality as a positive factor?

A8: Makoto Yoshitaka, CFO – First, we do expect economic sentiment to continue to worsen going forward. As I explained earlier in the slide presentation, we are forecasting an increase in existing stores sales at UNIQLO Japan of 9.6% in the first half through February 2009, and a rise of just 1% in the following six months through August 2009. We haven't revised the initial forecast for the second half basically because, even though the first quarter results were extremely good, changing our view of the second half is not something we can do at this point in time. Having said that, we are aware that the future consumer environment is likely to become even more severe and are bearing that in mind.

Q9: Have you made any changes to your initial plans in areas such as planned sales promotion activities, product policy or pricing policy?

A9: Makoto Yoshitaka, CFO – No, we have not. Our advertising campaigns in first quarter successfully attracted customers and boosted sales. However, considering the expected severity of the consumer environment in the second half, we are not considering making any changes to our pricing policy right now.

Q10: I would like to ask a question about UNIQLO Japan products. President Yanai was quoted in an industry newspaper saying that, while the firm had successfully concentrated on basic garments to date, there was a need to concentrate a little more on fashion elements going forward. Has there been any change then on product development?

A10: Makoto Yoshitaka, CFO – What President Yanai meant by this comment was that there was a need to further strengthen fashion elements in our women's wear. We still have numerous product ranges in our women's wear that could do with some further strengthening. You should understand that Mr. Yanai's had women's wear in mind when he made those comments in the industry newspaper.

Q11: You generated a non-operating appraisal currency loss of ¥4.0bln in the first quarter as the yen strengthened by roughly 20%. On a rough calculation then, is it fair to understand that you generated this appraisal currency loss on ¥20.0bln of overseas assets?

A11: Makoto Yoshitaka, CFO – As you can see in the slide presentation, the balance for non-operating losses totaled approximately ¥10.0bln at the end of the term. This non-operating loss stemmed from foreign appraisal losses on loans to overseas subsidiaries. The loans to overseas subsidiaries were made in Euros, dollars and sterling. Losses on the portion denominated in dollars were the highest, with sterling and euros roughly equal. We also reported a non-operating loss as a currency loss on payables due to the rapid change in currency values. UNIQLO International subsidiaries settle payment for their UNIQLO products on a dollar basis through UNIQLO Japan.

Q12: Your forward exchange contracts have been set at roughly 108 yen to the dollar for three years or so. However, if the yen strengthened as far as 80 yen to the dollar, might you be at a disadvantage compared to other large supermarket chains, or GMS?

A12: Makoto Yoshitaka, CFO – The forward exchange contracts rate for fiscal 2009 is roughly 104 yen. Some of the contracts span 3 years, but that doesn't mean that we have set up 100% contracts for the entire next three years. There is still a portion remaining for the coming and subsequent business years. Unit price and final pricing are not the sole source of competition. Rather competitiveness is drawn largely from just how well you can offer products that meet customer needs. If the dollar continues to weaken considerably next year and the year after, you can't simply put figures into a calculator to come with data on the extent of lost competitive edge, or comparative disadvantage. Whoever the opponent, be it the big supermarket chains or anyone else, we feel that truly grasping customer needs and constantly offering value added products is the most important weapon with in facing the competition.

Q13: How much HEATTECH sales were included in the first quarter result?

A13: Makoto Yoshitaka, CFO – We increased production volume of HEATTECH products from 2 million units last year to 2.8 million units this year, with an average cost of ¥1,000 for women and ¥1,500 for men. I think you can work out the sum from these figures.

Q14: How far has Toray increased its manufacturing capacity for HEATTECH? You sold 2.8 million units this year, but is there the market potential to say double these sales next year?

A14: Makoto Yoshitaka, CFO – During the first quarter, HEATTECH products sold well as soon as they were put into the stores in September. We see this as testimony to the fact that customers were awaiting their launch, and that last season's 2 million units were not sufficient. We are of course thinking cautiously about future scale, but we do believe that these products have a greater potential. However, I think that it is still too early to debate whether production could double next year or not. We will determine next year's sales plans when we have completed discussions with Toray on production capacity.