

Analyst Meeting Q&A

Business results for the three months to November 2010

Below is a text including main questions asked on January 13, 2011 at our analyst meeting about our business results for the three months to November 2010, the first quarter of fiscal 2011. The content has been edited for the sake of brevity and clarity.

Q1: You have revised downward your forecast for UNIQLO Japan sales for the first half through February 2011 by ¥10.0bln. Is this simply a reflection of sales conditions in the month of December or does it also incorporate a revision to your original sales estimates for the months of January and February?

A1: Hidetsugu Onishi, Group Officer & CFO – The downward revision in our estimate for UNIQLO Japan sales for the first half through February 2011 incorporates the actual fall in sales in December 2010 as well as our expected sales performance in January and February 2011.

Q2: You have revised downward slightly your estimate for your gross profit margin in the first half. Does this reflect the rising cost of raw materials?

A2: Onishi CFO – We revised downward our forecast for gross profit margin in the first half essentially because we anticipated the large fall in December sales would necessitate greater discounting to liquidate inventory. However, the price of our raw materials for the second half through August 2011 is already essentially determined, as a result we have not needed to include any such consideration in this revised estimate.

Q3: Do you think procurement costs for raw materials are likely to continue increasing for your fall and winter 2011 lines?

A3: Onishi CFO – We cannot entirely rule out such a possibility, but there is nothing about this for me to tell you at this time.

Q4: The cost of raw cotton is shooting up. Have you already secured the cotton materials you will need for the fall and winter season?

A4: Onishi CFO – You all seem to be concerned about raw material costs. We are securing materials as needed, in a flexible manner. Naturally, we are prepared to absorb any rises in raw materials costs.

Q5: The spread between spot and futures prices for cotton is considerable. Can you tell us at what price UNIQLO is able to procure its cotton?

A5: Onishi CFO – Fast Retailing does not deal in cotton futures, so the cotton procurement price is determined through direct negotiations with individual suppliers. However, I cannot comment on the specific details of such deals.

Q6: Can you comment on current UNIQLO inventory levels? You said that inventory in November had not increased much versus the previous year, but what about the inventory levels in January?

A6: Onishi CFO – The level of inventory in November was not markedly higher than the previous year's level. December sales did fall below our initial estimate and so the level of winter inventory is increasing, although not to a level that would cause concern.

Q7: You have been establishing system for business operations to facilitate the Group's shift to a global structure of management and production. How is that progressing?

A7: Onishi CFO – Over the past year or two, we have been crafting a new framework to steer our working practices and business systems towards our Global One mission of managing all Group companies as a single entity. I think we talked in our last analyst meeting in October about the new system introduced in September to unify finance-related systems such as accounting, finance as well as a portion of our personnel functions. We are continuing our efforts to establish such working frameworks.

Q8: CEO Tadashi Yanai has commented in the past that store managers in UNIQLO in China are not of uniform caliber and that there was a need to enhance your training systems. What progress have you made in terms of hiring and training since then?

A8: Onishi CFO – I think the strength of our Chinese operation is partly due to the various improvements we have made on site, and we remain committed to actively developing local hiring and training systems. Toward that end, we have dispatched some of our best store managers and supervisors from Japan to help resolve outstanding issues and strengthen overall personnel training.

Q9: You have said that you expect changes to UNIQLO product strategy to produce benefits from the second half, from February through August 2011. When exactly do you see these benefits kicking in?

A9: Onishi CFO – From the spring and summer 2011 season onward.

Q10: Looking at your sales figures for the first quarter by product category, men's wear appears to have performed fairly well while women's wear sales fell heavily. Why was that?

A10: Onishi CFO – By emphasizing the fashion elements in women's wear, the number of product items on offer ballooned, and, consequently, the fall in sales was larger.

Q11: The +J collection is relatively small in terms of sales generated. However, I believe it contributed considerably last fiscal year in terms of news value. Can you tell me how you see the +J collection in fiscal 2011 and how you see the collection developing in future business years?

A11: Onishi CFO – The +J collection enjoyed passionate support in Europe and especially in the United States, but enthusiasm for the collection was slightly more subdued in Japan. We will be looking at ways to further promote the collection going forward.

Q12: Why are you predicting a large year-on-year fall in gross profit margin in the second quarter of between six and seven points year on year?

A12: Onishi CFO – We enjoyed an unexpected benefits from a stronger yen in the second quarter last year, from December 2009 to February 2010, when sales outstripped our initial estimate and we were required to purchase additional product at the spot foreign exchange rate. This contributed to the improved gross profit margin in the second quarter last year. At the same time, this is the reason behind the large year-on-year fall in gross profit margin forecast for the second quarter of this year. We also made moderate revisions to our estimate for gross profit margin in the second quarter to reflect the first quarter gross profit margin which was slightly higher than initially expected.

Q13: My question relates to extraordinary losses. You accounted lump-sum extraordinary losses in the first quarter for logistics costs and asset retirement, etc., but the actual figure was lower than that included in your initial business estimate announced in October 2010. What is your estimate for total lump-sum extraordinary losses for the full business year through August 2011? Also, am I right in understanding that the additional extraordinary loss of ¥0.8bln posted in the first quarter anticipated further closures of footwear specialty stores?

A13: Onishi CFO – In terms of extraordinary losses, we accounted three individual lump-sum losses in the first quarter under logistics costs, fixed asset depreciation allowance and asset retirement obligations. There will be no additional losses under these lump-sum items and so these will be the final figures. The loss totals did come in slightly lower than initially forecast once the items had been duly finalized, but this was not due to any determined design to reduce the final amounts. The further extraordinary loss of ¥0.8bln did incorporate the additional impact from the closure of footwear specialty stores, and that is why we believe we will be able to maintain extraordinary losses as initially forecast for the full business year to the end of August 2011.

Q14: UNIQLO International generated a 52.2% increase in operating income in the first quarter, but you estimate operating income will rise by only around 30% year on year for the full business year. Might this full-year estimate be revised upward?

A14: Onishi CFO – The first quarter tends to generate a disproportionately large part of total annual profit, and so we cannot simply quadruple the first quarter performance to get to the annual profit figure. In addition, our forecast for UNIQLO International operating income for the full business year also incorporates increasing launch-related costs as we approach the opening of the global flagship store on New York Fifth Avenue in the United States.