

Analyst Meeting Q&A

Business results for the nine months from September 2012 through May 2013

Below are excerpts from our analyst meeting held on July 11, 2013. The following text, which was edited for the sake of brevity and clarity, includes the main questions asked about our business results for the third quarter of fiscal 2013, or the nine months from September 2012 through May 2013.

Q1: You say that operating income at UNIQLO Japan fell ¥3.0bn short of target in the third quarter, but what about operating income on a consolidated basis?

A1: Takeshi Okazaki, Group Senior Vice President & CFO – The downturn in operating income at UNIQLO Japan in the third quarter had a major impact on consolidated operating income as well. However, subsequent sales data for June have proved strong, and so we will be looking to generate a recovery in performance for the fourth quarter from June through August 2013 by further boosting sales and ensuring the gross margin stays on target.

Q2: You have already mentioned that consumers at UNIQLO Japan were extremely sensitive to prices in the third quarter, so how exactly do you plan to protect your gross margins in the fourth quarter? Can you also elaborate on your pricing strategy for fiscal 2014?

A2: CFO Okazaki – Our strategy in the third quarter was to control our gross margin by restricting the number of discounted items. However, our customers proved especially savvy this time round and they homed in on the discounted items far more than usual. Our gross margin contracted year on year as a result. Having said that, we feel that the huge jump in customer visits to our stores in the third quarter represents significant progress. Now into the fourth quarter, we can concentrate on improving overall business performance by boosting sales even further but also ensuring the gross margin stays on target. As for the coming fiscal year starting in September, we are not planning to make any fundamental changes to our pricing policy.

Q3: You explained how third quarter performance at UNIQLO USA was adversely impacted by poor weather and consequently fell slightly short of target. Can you tell us how customers are viewing the UNIQLO brand recently?

A3: CFO Okazaki – We have noticed a clear demarcation at UNIQLO USA between items that sell well and those that do not. So improving our product lineup is a clear issue for us there. We have also noted differences in the optimum product lineup for each new store depending on its location. We have taken these trends on board and are currently working on how to improve them. Larry Meyer joined as COO of UNIQLO USA at the beginning of the year. He has since helped put together a strong team of both American and Japanese managers and they have begun implementing successful measures. Larry Meyer worked as senior vice president and CFO at a large American apparel retailer for many years. He has a wealth of experience and knowledge of the apparel market in the United States and we feel he will make a very significant contribution to UNIQLO USA.

Q4: Can you tell us why you were unable to reduce third-quarter SG&A ratios for store rents and personnel below the previous year's level? Surely the ratios should have contracted further given the 9.3% expansion in same-store sales in the third quarter?

A4: CFO Okazaki – The store rents to net sales ratio didn't improve because we are actively expanding our urban store network and this leads to an increased burden in terms of store rents. In terms of personnel expenses, these are controlled so that they mirror sales trends. Since our plan is to expand same-store sales, naturally we have to dispatch the appropriate number of personnel to ensure stores are properly maintained and managed.

Q5: How do you plan to boost the gross margin at UNIQLO Japan in the fourth quarter?

A5: CFO Okazaki – To be honest, since the gross margin contracted year on year in the third quarter, it would be fairly difficult to generate a large enough recovery in the fourth quarter to generate a year-on-year gain in the gross margin for the second half as a whole. In the fourth quarter, we want to focus on achieving our targeted level of operating income by continuing to boost sales and expand gross profit as originally planned. We have been upgrading the fixtures and fittings in our stores; therefore, we still have plenty of in-store stock which we can use to boost sales, and, if necessary, we can also expand sales through aggressive advertising.

Q6: What are the major issues that management will focus on in fiscal 2014?

A6: CFO Okazaki – We will be focusing on several key issues for the coming business year. First of all, we are keen to ensure further strong growth for UNIQLO's global operations. We plan to expand our store network mainly in Asia, but we also recognize that conditions are now ripe to begin a determined expansion in the United States as well. As far as UNIQLO Japan is concerned, we will channel our efforts into generating a lasting recovery in customer visits. The key here is to create stores that are bustling with people. Such a store atmosphere would help generate a natural recovery in the average purchase price per customer and, in turn, the gross margin. So, to sum up, our key challenges for UNIQLO Japan in fiscal 2014 will be to boost customer visits and expand sales while keeping a firm control over gross margins.

Q7: Is boosting the average purchase price per customer one of your management focuses for the upcoming business year?

A7: CFO Okazaki – We don't want to boost the average purchase price by actively putting up prices. We want to do it by expanding average purchase volume.

Q8: Since the middle of October 2012, you have been increasing the number of days when you offer 'limited-period sales'. Do you plan to continue this strategy? Can you explain the advantages and disadvantages of this strategy in terms of business performance?

A8: CFO Okazaki – We have been holding "four-day limited-period sales" which run from Friday

through to the following Monday. These sales have proved extremely effective with sales volume expanding not only on the Saturday and Sunday but the Friday and Monday as well. These sales have helped create a more bustling, exciting atmosphere in our stores, so we plan to continue holding these sales going forward. However, this does involve a greater amount of discounting. Therefore, in future, we won't focus on discounts alone to attract more customers but will feature the superior quality of our products or the added value that they offer.

Q9: Business expenses at UNIQLO Japan rose considerably in the third quarter. Could those expenses now move above your target for fiscal 2013 as a whole? Are expenses for advertising, refurbishment and other areas likely to rise in fiscal 2014 as well?

A9: CFO Okazaki – We did not exceed our target for promotion costs in the third quarter. In fact, total advertising and promotion costs came in roughly in line with our expectations. It is true that advertising expenditure has been rising, but this is a direct reflection of our drive to strengthen the overall standard and reach of our advertising. We plan to use only what we have budgeted for in terms of advertising expenditure for the full business year as well. Once into fiscal 2014, most of the planned fixtures and fittings upgrades will have been completed so we are not likely to be announcing any major expenditure relating to store upgrades. However, we will continue to pursue aggressive and positive advertising going forward.

Q10: In terms of individual sales trends at UNIQLO Japan, women's wear generated extremely strong sales growth. By contrast, men's wear sales slowed down. Is this sluggish performance in men's wear a serious concern?

A10: CFO Okazaki – We have focused attention on actively boosting women's wear in terms of stock management and promotional activities. This has clearly helped boost sales of women's wear but we feel that this segment still has plenty of untapped potential for further expansion. At the same time, we are not overly concerned about a potential slowdown in men's wear.

Q11: In your slide presentation, you said that losses at UNIQLO USA hovered stubbornly at the previous year's level despite your plans to reduce them. Why were you unable to reduce the operation's overall loss?

A11: CFO Okazaki – We did not manage to reduce the loss reported by UNIQLO USA because sales at our three New York stores including global flagship stores didn't expand as much as forecast. I don't want to blame everything on the weather, but the unseasonal cool spring did adversely affect sales in the United States and, as a result, performance at the three New York City stores fell short of target. Conversely, sales at our newest stores in the United States proved favorable. However, since those stores still make up a comparatively small portion of the total UNIQLO USA operation, their impact on overall performance is still small.

Q12: How much is it likely to cost to open these 10 new stores in the United States this fall? When do you expect UNIQLO USA to turn a profit?

A12: CFO Okazaki – We are planning to open 10 new stores this fall, but the amount of investment and the store opening costs will be much smaller than for a global flagship store. Per store investment for new opening will be similar to that for a new store in Japan. Our strategy for developing a fully-fledged UNIQLO operation in the United States involves several planned phases. Phase I, the brand building stage, required heavy investment to create a platform from which we could launch future expansion. Phase II involves building a network of standard-scale, profitable stores in order to bring the overall UNIQLO USA operation into the black. Once the operation is turning a profit, Phase III will involve a concerted acceleration of new store openings. We are currently at the beginning of Phase II but I can't say exactly when we will turn a profit at UNIQLO USA. To be honest, it will probably be difficult to turn a profit in fiscal 2014, so at the moment we are aiming to move into the black in fiscal 2015 or a little later.

Q13: Can you give us the individual figures for third-quarter same-store sales in China, South Korea and Taiwan? Can you also tell us how many UNIQLO stores you intend to open in Asia in fiscal 2014?

A13: CFO Okazaki – We do not disclose same-store sales data for individual countries. I can tell you that UNIQLO China and UNIQLO Taiwan generated year-on-year growth in same-store sales in the third quarter. UNIQLO South Korea experienced a significant slump in sales in April which knocked overall performance slightly lower in the third quarter. I am reluctant to blame the weather once again for the poor sales performance at UNIQLO South Korea in April, but cold temperatures did dampen sales. In terms of future store openings, we plan to open a similar number of new stores in China, South Korea and Taiwan in fiscal 2014 as we did in fiscal 2013. We may even exceed that number by a small margin. However, we are definitely looking to open more new stores in other parts of Asia than we did this year.

Q14: Performance at Global Brands fell short of target in the third quarter. A quick calculation suggests that the segment will have to generate a profit of ¥4.0bln in the fourth quarter if it is to avoid falling short of target for fiscal 2013 as a whole. Are you confident you can achieve this?

A14: CFO Okazaki – Our low-priced GU casualwear brand continues to perform strongly and is generating consistent gains in both sales and income. Our Theory women's fashion label also showed a year-on-year growth in profit in the third quarter. Our France-based labels, Comptoir des Cottonniers and Princesse tam.tam, did fall short of target in the third quarter but this was, I am sorry to say again, due to unseasonal weather. It has been extremely cold in France this year and CDC and PTT were adversely impacted by that. PTT felt an especially sharp impact from the extreme weather because it markets swimwear at this time of year. However, we do believe performance will improve going forward.