

## Analyst Meeting Q&A

### Business results for the twelve months from September 2012 through August 2013

Below are excerpts from our analyst meeting held on October 10, 2013. The following text, which was edited for the sake of brevity and clarity, includes the main questions asked about our business results for fiscal 2013, or the twelve months ending August 31, 2013.

**Q1: You conducted four-day limited-period sales in fiscal 2013 in order to attract customers to your stores by offering lower prices. However, that resulted in a sharp decline in the gross margin at UNIQLO Japan. As a result, you now plan to focus on boosting the average purchase price per customer in fiscal 2014, but does this mean that you are revising your strategy towards limited-period sales as well?**

**A1: Tadashi Yanai, President, Chairman & CEO** – I think the strong price appeal of UNIQLO Japan's limited-period sales successfully attracted customers in the first half of fiscal 2013, from September 2012 through February 2013. However, we were not so successful in the second half from March through August 2013, especially in regards to our cheaper spring/summer items. I think this was because the clothing ranges on offer didn't include a large enough proportion of the high value-added "LifeWear" products to which we are now aspiring. Going forward, I want to offer more ingenious, creative items or high value-added items. For instance, the latest fall/winter range includes such items as our cashmere and silk ranges. Distinct from the highly-functional synthetic materials which we have focused on to date, both cashmere and silk are natural fibers, and I believe that UNIQLO will sell extremely large volumes of these cashmere and silk products all over the world this season. We will certainly be pointing out the value and pleasure of wearing natural fibers to our customers. Another factor at play in fiscal 2013 was shortages of some AIRism, Steteco and Relaco items in the spring/summer season. In fiscal 2014, we will be encouraging customers to buy several items of our high value-added AIRism, Steteco and Relaco ranges at once. I believe that will help boost the average purchase price per customer at UNIQLO Japan.

**Q2: What do you see as the main problems that might hinder UNIQLO's mid-term growth in China and South Korea?**

**A2: CEO Yanai** – Today, Shanghai is again looking to attract foreign capital by creating free-trade areas, and we are also seeing signs of free-trade activities in Shanghai that are similar to what you might experience in Hong Kong. In addition, we are not being adversely affected by the slowdown in the Chinese economy at present. Looking at this from a broader perspective, if you consider the likely buoyant pace of growth across the whole of Asia going forward, it is impossible to imagine that without China and South Korea. In fact, we believe that the greatest growth potential for our business lies in the Pacific Rim area. It is also possible that the ASEAN nations could form a unified economic zone similar to that of the European Union. The population living in the region spanning

China through India totals four billion people, and we believe that at least one third of that figure will become middle-income earners in the future. Based on the trends observed during Japan's history of economic development, we also believe that people will look to purchase everyday items such as clothing before they turn their attention to the purchase of consumer durables. As a result, we predict we will experience extremely large demand for our products in this region.

**Q3: You said in your slide presentation that, as you continue to increase the number of UNIQLO stores in malls in the United States, you may have to develop more everyday clothing to better suit the American people. Does this mean that you are going to make products especially for the American market?**

**A3: CEO Yanai** – It is not that we have to develop items especially for the American consumer, but rather that we need to develop clothing that is even more casual in essence. Many of the people who visit our high-street stores tend to be relatively fit and smart, but people of all levels of fitness visit our suburban stores. I believe that we will have to further develop and expand the range of sizes and styles for our everyday clothing such as jeans, T-shirts, polo shirts and short pants. We are already working on this, but I want us to reenergize our UNIQLO R&D center in New York to help with this task. Another fashion brand within the Fast Retailing Group, Theory, was born in New York and has a product development center located in the city's meat packing district. I think Theory and UNIQLO can work together usefully in this area of product development. In addition, this might well have something to do with our influential UNIQLO USA COO, Larry Meyer, but we have recently attracted many high-caliber managers to join the company. Our strategy in the United States is to instill our Japanese corporate DNA into an effective management team made up primarily of American nationals. This would enable us to maximize our strengths in the American market by developing a more American style of management and a range of products best suited to the American consumer. This is the current challenge facing UNIQLO USA. Naturally however, we would like any products which are developed for the American market to be suitable for sale worldwide.

**Q4: UNIQLO Japan's gross profit margin contracted 1.8 points year on year in fiscal 2013. You are now predicting that you will boost the gross margin by 1.0 point in fiscal 2014, but doesn't that mean that you are only expecting to recoup half of the original fall? Are you not expecting your margin of loss to improve?**

**A4: Takeshi Okazaki, Group Senior Vice President & CFO** – Our forecasts for the gross profit margin at UNIQLO Japan are formulated based on bottom-up method. In the fourth quarter of fiscal 2013 from June to August, the gross margin was extremely poor. We have learned lessons from this experience however and we don't intend to repeat them, so you could say that our forecast is a little conservative.

**A4: CEO Yanai** – When you talk of loss margins, are you referring to price discounting? On the subject of price discounting, as I mentioned earlier, we successfully boosted the numbers of

customers visiting our stores in fiscal 2013 by increasing the number of limited-period sales. However, with hindsight, we feel that we went overboard on this in the second half of fiscal 2013 and the precision of our product control suffered somewhat as a result. Limited-period sales tend to generate some products which sell extremely well and some which don't sell well at all and result in excess stock. Therefore, we plan to maintain greater control over these sales in the current business year. In addition, I also want to produce and sell a greater proportion of high value-added garments and garments requested by our customers.

**Q5: I would like to ask about changes to your marketing methods. Are you planning to shift the focus from paper fliers to internet advertising? Are you planning to continue distributing fliers which feature door-buster items?**

**A5: CEO Yanai** – Rather than rely on fliers as our main means of advertising, I think it is better to adopt whichever means best communicates the virtues of a particular product. The internet harbors huge potential and so we need to revolutionize our internet sales and our internet advertising going forward as a means of selling products on a global scale. As for our door-buster items advertised through fliers and our limited-period sales, I want to reduce the ratio of heavily-discounted items. Instead, I want to change the nature of “limited-period sales” and instead offer “trial-period prices” on our very best items in order to stimulate customers’ appetites.

**Q6: What is the difference between “MADE FOR ALL” and “LifeWear”?**

**A6: CEO Yanai** – The “MADE FOR ALL” clothing concept governs our actions and strategies as the maker of clothes, whereas “LifeWear” looks at clothes from the wearer’s perspective in order to determine what type of clothes the wearer most desires. There doesn’t have to be any conflict or contradiction here. Our basic belief is that items of clothing are the parts that form a particular look. We also strive to sell basic, high-quality clothing with a hint of fashion. I think that all people around the world can understand and appreciate this approach.