Analyst Meeting Q&A

Business results for the six months from September 2013 through February 2014.

Below are excerpts from our analyst meeting held on April 10, 2014. The text, which was edited for the sake of brevity and clarity, includes the main questions asked about our business results for the first half of fiscal 2014, or the six months from September 2013 through February 2014.

Q1: I listened with great interest to your explanation of how you plan to revolutionize UNIQLO Japan by hiring more local-store employees, but what practical impact would this new system have in areas such as product line up or store operations?

A1: Tadashi Yanai, President, Chairman & CEO – Let me use one of our franchise stores as an example. I have been surprised by the aggressive leap in sales since this particular franchise arrangement was established a few years ago. The store is located in a city with a population of approximately 170,000. Before switching to a franchise framework, the store generated monthly sales of ¥28 million, but that figure soared to ¥60 million following the switch to an employee franchise outlet. I believe there are several reasons for this huge improvement in performance. The store manager and in-store staff have strong links with the local community and a superior understanding of the product lineup, and what best suits the local community. The employees working in the store were hired locally and share a common desire to work in the store long-term. I want to see this level of locally committed talent and performance extend across the entire UNIQLO Japan store network.

I want to give people who are currently working in local stores as part-time or casual staff the chance to step up and become the main drivers of their store. To date, our store managers have always been considered the major local players, but that has resulted in an inflexible hierarchy within our organization, headed by store managers. I want to change all that by creating teams of store managers and talented local staff collectively responsible for that individual store’s operations. Generally, it takes over two years to learn to be a really adept sales person. It is not simply about selling things, but also carefully checking inventory, attentiveness to product displays, effective communication with customers, as well as experience working on the till and making alterations to clothes on site. I want to create a new framework in Japan, which encourages people to make a longer-term commitment, working for three, five or even ten years on the shop floor as a member of an individual store’s collective management team.

Q2: Is the introduction of this local-store employee system likely to boost personnel costs, and if so by how much? Will it be significant enough to affect the segment’s overall business performance?
A2: CEO Yanai – It is possible that personnel costs will rise somewhat at the outset, as we convert temporary or contract personnel to local-store employees. However, I believe that the contribution to improved overall business performance will far exceed any related increase in personnel costs.

Q3: Have you noted any significant change in the way you do business as UNIQLO operations continue to expand globally in terms of your business practices, marketing, inventory management, etc?

A3: CEO Yanai – If you want to develop your business globally, you always have to juggle the seeming contradiction between attending to local market needs and pursuing a universal policy. That is what we mean when we talk about “Global is local, local is global.” It is our intention to build a group which is essentially driven by local employees, with Japanese management teams directing operations in Japan, Koreans in South Korea and Chinese in China. We are currently opening approximately 200 new stores outside of Japan every year, and so I believe it is absolutely necessary for us to instigate sweeping changes in our marketing and supply chain management, as we strive to become a truly global company.

Q4: How do you envisage price trends changing going forward?

A4: CEO Yanai – I don’t believe a product will sell well just because it is cheap. That is why I am more interested in selling truly good products at a price that anyone can afford. This conviction remains the same even in the wake of the April sales-tax hike in Japan. Our customers are extremely sensitive on price, and so I don’t believe we can increase prices at will. Indeed, I prefer to strive to avoid increasing prices as much as possible.

Q5: Why have the in-mall stores opened in the United States in fall 2013 proved so successful? For instance, is your new store in the Menlo Park mall in New Jersey also generating strong earnings?

A5: CEO Yanai – The UNIQLO brand is much more broadly recognized in the United States since the opening of our New York Fifth Avenue global flagship store and our New York 34th Street megastore, and we are now receiving invitations from large numbers of developers to open new stores in their retail buildings. You might find this hard to believe, but I think UNIQLO is fast becoming the number one tenant of choice for mall owners in the United States. And yes, the Menlo Park store is yielding a profit.

Q6: Business expenses at UNIQLO Japan are expected to rise in the second half from March to August 2014. Does this relate directly to your decision to boost the number of local-store
A6: Takeshi Okazaki, Group Senior Vice President & CFO - We have revised down our estimates for UNIQLO Japan's overall performance in the second half because we expect business expenses will rise over that period. Increases in personnel costs will likely prove the most significant factor here, partly due to higher hourly rates for part-time and casual staff, and partly due to our decision to convert some of our temporary staff into local-store employees. We also predict distribution costs will rise in the second half.

Q7: How much of this conversion of casual store personnel to local-store employees have you incorporated into your latest estimates for higher personnel costs?

A7: CFO Okazaki – Our current goal is that roughly half of our part-time and casual staff will ultimately become local-store employees. But we will be screening all potential candidates extremely carefully to ascertain their level of commitment and capability, so we cannot say at this stage how quickly this will progress. It might be quick, or it might take time. However, we are unlikely to see a radical change during this current six-month period to the end of August 2014.

Q8: I think you tried to encourage more local employees once before back in 2007. What is different about this current drive to boost the number of local-store employees?

A8: CEO Yanai – It is completely different. First, the new local-store employees will become official permanent members of staff, rather than designated regional staff. They will enjoy the same treatment and benefits as other full-time employees. Naturally, their salaries will depend on the nature of their job and their salary grade within the company, but they will enjoy the same access to paid leave, bonuses, care leave, maternity leave, pensions, 401k, etc. Up until now, store managers and full-time employees have been considered superior and more influential than designated regional personnel, but this time I want to create a new store-led company centered around local-store personnel.

Q9: How does profitability at UNIQLO's Greater China operation compare with that of UNIQLO Japan?

A9: CFO Okazaki - Profitability at UNIQLO Greater China is still slightly lower than UNIQLO Japan. However, this gap is certainly closing, as profitability in Japan continues to decrease while profitability in China continues to improve.