

Analyst Meeting Q&A

Business results for the year to August 2014

Below are excerpts from our analyst meeting held on October 9, 2014. The text, which was edited for the sake of brevity and clarity, includes the main questions asked about our business results for fiscal 2014, or the twelve months from September 2013 through August 2014.

Q1: It would appear that UNIQLO Japan's gross profit margin improved by 6 or 7 points just in the three months from June to August 2014. You say this was due to strong sales of core items, and finely-tuned inventory levels for core items. Could you give us some more background detail on this?

A1: Tadashi Yanai, President, Chairman & CEO – I think the key point here is that we focused on selling the things which UNIQLO does best, namely our core items. We carefully highlighted and advertised the specific appeal of each item and each range, and those items sold well as a result. In other words, the key point is that core items sold well, not because of their reasonable price tag, but because of their strong value appeal. Another vital point here is that the definition of UNIQLO clothing as Lifewear has been clearly established. We strive to produce the ultimate everyday wear, and that is the message we convey to our customers. The fact that our LifeWear clothing concept is perfectly suited to the current needs of our customers also probably has something to do with it. With the exception of the Tokyo capital, economic conditions have not improved greatly in Japan. In such a severe consumer environment, consumers tend to be extremely selective about the products and the brands they buy. At UNIQLO, we feel that this situation actually helps us achieve our aims and improve our performance.

Q2: You say that you plan to build a framework in the United States over the next few years that will enable you to open 100 stores each year in that national market. This probably means you will have to develop everyday clothes specifically for consumers in the United States. What are you doing about that right now?

A2: CEO Yanai – Nearly the entire UNIQLO USA management team are US nationals, so, going forward, it will be a question of dispatching Japanese staff to ensure that we develop clothing for the local market which incorporates UNIQLO's clothing concepts and corporate DNA. We are also extremely fortunate that all of the top managers working in the United States are among the best in the industry.

Going forward, I shall be encouraging American nationals to develop clothes for the United States market. However, those ranges will be developed according to UNIQLO's clothing concepts, and so there is no reason why they should not be suitable for the global market as well. We will design and create clothes specifically for customers in the United States, but, remember, they will always be essentially UNIQLO clothes.

UNIQLO has already evolved to an extent. UNIQLO is a clothing brand from Japan, but we have already incorporated various flavors and influences from Europe and Asia. At the moment, UNIQLO clothes sell well on the US West Coast where the Asian population is high, and on the East Coast where various cosmopolitan cities are located such as New York, Boston, Philadelphia, etc.

Going forward, I want to design and plan our products globally. New York is a really strong fashion center which attracts many extremely talented personnel, so I would like to set up a genuine R&D system in New York. Europe, particularly Paris and London, is the birthplace of our modern clothing culture, and so I want to hire talented people to create UNIQLO clothes in Europe. I want to create clothes that reflect the best combination of global and local, so that UNIQLO can become the creator of the best clothes for each local market, and consequently the best-loved brand in each of those local markets as well. That is the type of universally-respected, locally-adapted clothes that I want us to offer.

Q3: What would your forecast for operation income be for fiscal 2015 under the original JGAAP accounting standards? Also, regarding the figures announced today using IFRS, profit attributable to owners of the parent at ¥100.0 billion seems considerably low relative to the operating profit forecast at ¥180.0 billion, can you tell us what will happen on tax rates, etc.

A3: Takeshi Okazaki, Group Senior Vice President & CFO – The first point to remember is that we will no longer be recording amortization of goodwill under IFRS. I'm not sure what the impact of foreign exchange rates will be, but we expect operating profit to be boosted by between three and four billion yen. We are always relatively conservative in our forecasting, and our forecasts are generally rounded to an easy number, so I wouldn't concern yourself too much with tax rates.

Q4: You have said that you want to develop a system that enables to you open 100 stores per year at UNIQLO USA. I would imagine UNIQLO USA would need to be operating in the black to be able to do this. What time frame are we talking about here?

A4: CEO Yanai – We are enthusiastic about our US operations, and I should imagine we will break even within the next two to three years.

Q5: You have set yourself an interim three-year goal to boost sales to ¥2.5 trillion yen. Can you give a rough idea of how that goal would break down between your three business segments?

A5: CFO Okazaki – First, please understand that this is an internal goal that we have set for ourselves, and is not an official target. Given that this is an internal goal, we don't have any firm figures, but I would imagine UNIQLO International would contribute approximately ¥1.5 trillion of the ¥2.5 trillion total.

A5: CEO Yanai – The regions we are particularly focused on in terms of growth potential are Asia and the United States. So we will be looking first to boost growth in the Pacific Rim, and then looking to expand in Europe.

Q6: You talked about establishing a global supply chain, with different elements and personnel sourced from the most appropriate, most efficient global locations. How long do you think it will take you to set up this chain?

A6: CEO Yanai – I want to complete it as soon as is physically possible because, as you know, UNIQLO is expanding its operations across the globe, and we will not be able to support our entire international operation efficiently if our production bases are all located in Asia, or, more specifically, just in China and Southeast Asia. Naturally, we will need to expand production into India, and we might need to consider production bases in such places as Turkey or South America. Another important part of the supply chain is of course, distribution. We need to be able to guarantee optimal distribution channels, not just in Japan, but in every national operation we manage. This is the era of direct sales, and that means revolutionary changes in distribution. We need to ensure that our global distribution is sourced from the most appropriate locations, in terms of efficiency and geographical proximity. Another key element of the supply chain is, of course, product design. Here again, we are looking at how we can design the best products in the best locations, within the shortest possible time. I want to make key changes in all these areas over the next one to two years.

Q7: UNIQLO International exceeded your expectations by a long way in fiscal 2014. Is the same trend likely to continue in fiscal 2015 as well?

A7: CEO Yanai – Probably, yes. The way we are going, UNIQLO International sales will soon dwarf those of UNIQLO Japan, and I don't think it will be long before we see UNIQLO International reporting sales that are four times the size of UNIQLO Japan. In other words, I am looking to actively encourage even faster growth of our international operations. The faster we grow, the greater the opportunity of developing UNIQLO as a global brand that is universally recognized and valued. I believe we will be able to achieve such high levels of growth at UNIQLO International, particularly once we have our optimized global supply chain in place. I'm sure you will witness impressive future growth in our global UNIQLO operations.