

Analyst Meeting Q&A

Fiscal 2015 1Q (September to November 2014)

Below are excerpts from our analyst meeting held on January 8, 2015. The text, which was edited for the sake of brevity and clarity, includes the main questions asked about our business results for the first quarter of fiscal 2015, or the three months from September through November 2014.

Q1: How far did first-quarter results outperform your expectations? Do you have any concerns about the second quarter onward that are preventing you from revising up your initial full-year forecasts now?

A1: Takeshi Okazaki, Group Senior Vice President & CFO – While we don't disclose specific figures, I can say that the first-quarter performance exceeded our forecasts by a considerable amount. I can also say there is absolutely nothing of major concern that is preventing us from revising up our full-year forecasts. Our full-year forecasts are intended as a guide of overall trends. Our business performed extremely well in the first quarter even without the foreign exchange boost, but the foreign exchange gain did increase finance income considerably. However, these types of gains are unpredictable and depend on factors beyond our control, so it would be inappropriate to revise our business estimates at this stage. We believe we should wait until the announcement of our half-yearly results to get a better picture of the immediate underlying trends, and then consider revising our estimates if necessary.

Q2: Can you tell about the “Go beyond borders” New Year message from CEO Tadashi Yanai?

A2: CFO Okazaki – The appointment of John C Jay as a member of the Fast Retailing global management responsible for overall creative aspects, reminds us of just how important creativity is in our business. If we keep on doing the same things day in and day out, then our business will eventually stall. Mr. Yanai's message emphasizes the need to incorporate innovation and creativity into our business decisions in order to carve a profitable future. He encourages all employees to strive to achieve that by overcoming perceived barriers of nationality, position, experience or conventional understanding.

Q3: Raw material prices appear to be falling slightly recently on the back of the fall in crude oil prices. Can you explain your own future pricing strategy?

A3: CFO Okazaki – The increase in retail prices of some items did have impact on the recent unit prices rise. However, the more significant factor is that comparatively expensive items have actually been selling really well. For instance, demand for items such as relatively higher-priced bottoms and HEATTECH Extra Warm has been high, and those ranges are selling well. Our customers are still

extremely price-sensitive, and customer visits increase significantly during our anniversary sale or whenever we offer temporary discounts. Having said that, our customers are not necessarily seeking low-priced items. Instead, they want to select items carefully. They are prepared to buy more expensive items if they feel that they are getting a good deal, so demand for these items is high. UNIQLO remains as attentive to price as always, because we are committed to offering customers reasonably priced items and good deals. However, on the cost front, the forward exchange contracts we use to protect against large foreign exchange fluctuations are becoming less effective in the face of sharp changes in foreign exchange rates. We will hold off for as long as possible, but we may have to increase prices on certain products to maintain reasonable sales cost ratios. We don't have any concrete plans to increase prices at this point in time, but we may have to in the future if the current trend continues.

Q4: I believe you have comparatively long-term contracts for the supply of raw materials, but how has the fall in crude oil prices affected your business?

A4: CFO Okazaki – That depends on the product. Take cotton for instance. Prices of special materials such as Supima cotton are unlikely to fall swiftly. I don't see much evidence of falling raw material costs reducing the cost of sales right now. Instead, I sense more upward pressure on the cost of sales from a weaker Japanese yen.

Q5: Why was your tax rate low in the first quarter?

A5: CFO Okazaki – The tax rate fell this time because it coincided with the ending of the special corporate tax surcharge levied to finance the reconstruction of the disaster-hit Tohoku. Another reason is the rising contribution to our overall business from UNIQLO's international operations, where tax rates are often lower than in Japan.

Q6: It has been reported in the media that a weakening of 1 yen in the Japanese currency earns you 1 billion yen in foreign exchange gains. Can you tell me which items on your PL are affected by the foreign exchange gain and how?

A6: CFO Okazaki – Foreign exchange gains impact the "other income/expenses", and "finance income/expenses" items. They are appraisal gains generated by a weakening of the yen amounting to approximately 1 billion yen for every 1 yen that the Japanese currency weakens. The weakening of the yen has boosted UNIQLO International and Global Brands data in the business profit category in yen terms, but the exchange rate effect is actually fairly small. That's because UNIQLO's quarterly results are compiled from monthly data calculated using exchange rates which are determined each month.

Therefore, the weakening of the yen only boosted business profit in the first quarter by a few percent.

Q7: You reported ¥6.3 billion operating profit adjustment for Group segments. Is this similar to the foreign exchange gains listed under other income/expenses?

A7: CFO Okazaki – Yes, it is.

Q8: So, on the back of the stronger-than-expected performance in the first quarter, you reported foreign exchange gains of over ¥20 billion in total?

A8: CFO Okazaki – Yes, that's right.

Q9: Was the improvement in the gross profit margin at UNIQLO Japan a result of higher retail markups or lower discounting?

A9: CFO Okazaki – Overall sales were strong, so we didn't have to discount heavily on any excess stock. That helped boost the gross profit margin.

Q10: Inventory at UNIQLO Japan increased in the first quarter. Are you concerned about that?

A10: CFO Okazaki – No, we are not especially concerned about inventory levels at UNIQLO Japan.

Q11: This is a question about UNIQLO Japan's strategy to develop more community-focused stores. Has the number of local-store employees increased over the first quarter?

A11: CFO Okazaki – We are making smooth, steady progress with our plans to boost the number of local-store employees. We have increased the number of local employees to approximately 3,500 so far. Our ultimate target is to boost that number to roughly 50% of total staff, or 15,000 people. We still have a long way to go, but we are making steady progress.

Q12: You mentioned an increase in the number of franchise stores in the first quarter. Is that likely to continue?

A12: CFO Okazaki – Our franchise stores are all employee franchises. The stores are managed as franchise stores by highly experienced employees who have been given the right to use the UNIQLO name. The number of franchise stores may increase further if there are more senior employees capable of managing them, but I don't expect to see any sudden increase in the near future.

Q13: Can you comment in more depth on the performance of individual operations within UNIQLO International?

A13: CFO Okazaki – UNIQLO Southeast Asia performed to plan. We have been opening stores in major cities where purchasing power is relatively high and sales per store are strong. However, we are also expanding into medium-sized cities and suburban regions where purchasing power is not quite so high, and this could impact sales per store. However, we intend to continue opening new stores and improving our product mix. For instance, we can offer a similar range of products to that in Japan in Southeast Asia's major cities, but we will need to offer product mixes that better fit local needs in smaller towns and suburban areas. So, our strategy in Southeast Asia is to press ahead with our store expansion, improving the product mix as we go.

In Europe, we are ready to press ahead with new store openings in the UK, France and Russia, now that we have a really good handle on the businesses there. We only have the one store in Germany, so we need to swiftly establish our brand presence there, and develop a system to support further store openings.

UNIQLO USA fell short of plan, but we are aware of the issues that need to be addressed. We have been opening stores in suburban shopping malls, but the results have been patchy, with some stores and areas doing well and other struggling. We need to ensure our product ranges better match local customer's needs at stores where sales have been sluggish, and we also need to do more to boost awareness of the UNIQLO brand in certain areas. Having said that, we do feel we have established a firm presence in the United States market. Some short-term factors also contributed to the fall in profit in the first quarter. For instance, the weather was milder than usual and this impacted adversely on sales. As a result, we discounted excess stock and this weighed on the gross margin. I expect performance will improve once we refine our demand projections and increase the accuracy of stock keeping units in individual stores.

Q14: Can you tell us more about performance in different areas of the United States, such as the West Coast, or New York?

A14: CFO Okazaki – New stores tend to fare well in New York, Los Angeles and along the West Coast, where the UNIQLO brand is recognized. Conversely, we need to do more to boost brand awareness in suburban areas on the East Coast. As an Asian brand, UNIQLO is fairly well known in areas with larger Asian populations, but is not so well known in areas with small Asian populations. It will take time and effort to boost our brand recognition in these areas.

Q15: You opened a large number of new stores in the United States in the first quarter. Did you plan it that way?

A15: CFO Okazaki – Yes, new store opening proceeded at the intended pace. We tend to open new stores at the beginning of new season, so in the September-to-November, and March-to-May quarters.

Q16: Kid's wear and babywear sales rose strongly in the first quarter. Do you expect this trend to continue?

A16: CFO Okazaki – We have been focusing heavily on kid's wear and babywear starting from 1Q fiscal 2015. We have expanded the range of items on offer considerably, and are aggressively increasing the number of stores selling children's clothing. Sales have risen strongly as a result. We plan to continue this strategy, so sales of children's clothing will likely continue to grow strongly for the time being.

Q17: You said that GU performed well in the first quarter. What specific improvements did you note?

A17: CFO Okazaki – First of all, our skirts and knitwear campaigns really hit the right note. We read the fashion trends just right and timed our communication with customers perfectly. Those were key factors in GU's strong performance in the first quarter. Going forward, we will consider whether we can extend GU's current range of trendy items to include basic essentials sold at lower prices than similar UNIQLO items. That could prove the key to GU's future growth.