

Analysts' Meeting Q&A

Fiscal 2015 3Q (September 2014 to May 2015)

Below are the main questions asked at our analyst's meeting about business results for the third quarter of fiscal 2015, or the nine months from September 2014 through May 2015. The answers have been edited to keep them short and clear.

Q1: By how much did operating profit at UNIQLO Japan exceed your target in the March-to-May quarter? What are your expectations now for the fourth quarter, given the contraction in sales in June?

A1: Takeshi Okazaki, Group Senior Vice President & CFO – I can't give you an exact monetary figure for how much a business segment exceeded third quarter targets. However, I can say that sales outstripped targets by a considerable amount in April and May when the weather was unseasonably hot. Business was extremely stable during that period, with strong sales enabling us to keep discounting under firm control. As a result, operating profit was considerably higher than expected in the third quarter. After that, the sharp drop in temperatures in June dealt a blow to players like us whose business is fueled by immediate demand. Given that our business performance is heavily influenced by the weather, it is difficult to predict what will happen going forward. We will do everything in our power to achieve our overall targets for the second half from March to August 2015.

Q2: Was the downturn in UNIQLO Japan sales in June caused purely by unseasonal weather, or were there other contributing factors?

A2: CFO Okazaki – The contraction in sales in June was caused primarily by external factors, namely an unseasonal climate, or more specifically cooler temperatures. However, with hindsight, we probably didn't advertise or inform customers sufficiently of items that would attract them to our stores. This persistent unseasonal weather is a concern, but we are confident we will capture immediate demand and attract greater sales once weather patterns return to normal. In the meantime, we will be informing customers of various newsworthy activities in July and August, and also advertising the launch of our fall ranges to ensure more customers visit our stores.

Q3: In the United States, UNIQLO has been struggling and your Theory brand is also facing a tough time. Some large-scale US apparel retailers have had to restructure their operations. Is the downturn in UNIQLO USA performance due to external factors only, or

are internal factors also to blame? What do you intend to do about it?

A3: CFO Okazaki – Economic conditions in the United States are not bad at the moment. But customers are spending their money on other things right now, and the apparel industry has felt the brunt of that. We are looking to actively expand market share in the United States at this point so this situation is unlikely to significantly damage our growth. Losses at UNIQLO USA have expanded partly due of the current market environment, but also due to the poor sales trend in the Fall Winter season followed by a lackluster start for our Spring Summer ranges. In addition, inventory levels were slightly higher than we would have liked, and the sales of some new stores didn't meet our target. The imbalance between sales and inventory forced us to discount more widely to offload excess stock, and operating losses expanded as a result.

We are currently working on three strategies to improve performance at UNIQLO USA. The first is to improve the fundamental way we do business there. Naturally, this means formulating accurate demand predictions, sales, product and inventory plans, and using them effectively. This is basic business practice, but we need to make necessary adjustments more swiftly and decisively whenever sales and inventory are out of balance. The rapid pace of new store development has probably exacerbated this sales/inventory imbalance. But now, with personnel from all over the world helping support UNIQLO operations in the United States, I am confident we can turn the situation around.

Second is to improve business cost efficiency. We have expanded our business in the United States by opening new stores, and investment and business costs have risen in tandem. We don't intend to change the fundamental direction of our business expansion strategy, but we do need to keep a much closer eye on business costs and run a tighter, leaner operation.

The third strategy is by far the most important, namely boosting recognition of the UNIQLO brand and appreciation of the brand's value. The United States is a huge market and so it is bound to take time to build a successful business there. There are still many areas in the United States where UNIQLO is not well known, so we plan to concentrate our marketing in specific areas. We will be more active in telling customers about new events and developments through a variety of channels.

We will use a combination of these measures to make the UNIQLO USA operation more successful in fiscal 2016.

Q4: What is the timeframe for your digital innovation collaboration with Accenture? Are you planning to start with projects in Japan and then expand them to your global operations?

A4: CFO Okazaki – We have some short-term projects and some medium-term projects. Some of the ideas are already taking shape and others will be implemented by 2020. The completion of the Ariake warehouse in spring 2016 is our short-term target in terms of digital innovation output. The Ariake digital flagship store will offer customer extremely convenient distribution and logistics. We are looking to make digital platforms more convenient, so that UNIQLO's digital platform will become an embedded, intricate part of our customer's daily lives. Of course, we have plenty more ideas for the medium term. Our ideas are ultimately designed for the global stage, so, while we are starting in Japan, we are, as always, looking to develop our ideas globally and implement them in major cities all over the world.

Q5: In China, consumption appears to be deteriorating, share prices are down and the future looks unclear. Do you expect conditions at UNIQLO's Chinese operation will change in the second half through August 2015?

A5: CFO Okazaki – To give my conclusion first, I don't think our operations will be affected a great deal. Our most recent sales data show that our business is not unduly affected by economic conditions or the state of the stock market. UNIQLO's LifeWear business framework in China is built upon real, immediate demand, with the weather having more of an impact than the economic conditions.

Q6: Why did you revise down your fiscal 2015 new store plans for UNIQLO International? For instance, you revised up your estimate for new stores in Greater China from 100 to 107 stores, but revised down the number of new stores in Southeast Asia from 45 to 29 stores. Also, how many stores are you expecting to open in each area from fiscal 2016 onwards?

A6: CFO Okazaki – We did revise our new store plans for UNIQLO International for fiscal 2015 down from 200 to 185 stores, but this does not mean we have changed our previously aggressive new store opening strategy. It is more to do with delays in the opening of shopping malls, especially in Southeast Asia. For instance, a large number of shopping malls which were set to open in August 2015, just before the end of our fiscal 2015 period, have been pushed back to September and the following fiscal period. We can't do anything about the delays in the opening of shopping malls so we have had to put back the opening dates for those new stores.

I can't give you any concrete figures on new store opening plans for fiscal 2016 at this stage. However, we expect to maintain or increase the current pace of new store openings in Greater China and South Korea. We are essentially extremely keen to open more new UNIQLO stores

in Southeast Asia and Oceania, so we will jump at any good opportunity that comes up. We want to open a greater number of stores in Europe, and we would like to maintain the current pace of new store openings in the United States. We will continue to scrutinize each new store proposal in great detail before giving the go ahead.