

October 8, 2015

Analysts' Meeting Q&A

Fiscal 2015 (September 2014 to August 2015)

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

Q1: You have increased prices on UNIQLO Japan 2015 Fall Winter ranges by an average 10%. Are you planning to increase prices further on 2016 Spring Fall ranges? Is the weaker yen still putting upward pressure to cost prices?

A1: Tadashi Yanai, Chairman, President and CEO – As you know, the Japanese yen has weakened 33% against the US dollar. As a result, we had to raise prices to avoid compromising on quality. We have kept these price rises to an absolute minimum, because I don't believe Japanese consumers would accept anything more. It was a tough decision but UNIQLO's reputation is built on quality and quality is something we can never compromise. In fact, I want to boost UNIQLO quality even further, and so we will probably need to raise prices on our 2016 Spring Summer ranges as well. However, we will proceed cautiously because it could be detrimental to our reputation and business performance to raise prices unless customers consider it is reasonable.

Q2: Given the fact that you won't need to report impairment losses for UNIQLO International in fiscal 2016, why are you not expecting a much greater improvement in the operating profit margin? Does your cautious estimate maybe include estimates for a deterioration in performance at UNIQLO Greater China as economic growth in the region slows?

A2: Takeshi Okazaki, Group Senior Vice President & CFO – We do expect operating profit will increase by a considerable amount at UNIQLO International given the fact that we expect impairment losses will contract. However, we are also forecasting a sharp rise in revenue, so the operating profit margin may only improve slightly. I say "improve slightly" because we are being fairly conservative in our forecasts, not because we are pessimistic on the future prospects for UNIQLO International operations. UNIQLO Greater China continues to generate an extremely favorable performance, and we expect to achieve similar levels of growth and profit margins in that region in fiscal 2016 as we did in fiscal 2015.

Q3: Do you have a rough time frame for introducing digital innovation?

A3: CEO Yanai – We should be able to implement our plans for digital innovation over the next three to five years, and I'm talking on a global scale here. We are fortunate to already have a global physical store network, and to enjoy strong brand awareness in markets all over the world. That means we should be able to merge our real and virtual businesses fairly swiftly. You only have to look at China's Alibaba Group to see how quickly the world is moving toward digitalization, and how that group's sales have subsequently soared to levels comparable with Walmart in the US. I believe it is possible to achieve a much faster pace of growth with successful digitalization.

I also believe that industrial structures will start to change once all operations are digitally linked. Changes that have so far been restricted to financial and IT industries will start to occur in a whole range of other industries as well. We are in a strong position because we are recognized as a global brand and we have a substantial physical store network. I also believe it is possible to carve a new end-to-end industry by pursuing open innovation together with superior companies in a range of fields, and I am keen to pursue this going forward. By end-to-end, I mean pursuing all processes simultaneously, from the understanding of customer needs to the swift manufacture, retail and delivery of appropriate products to fully satisfy those needs. That is the kind of industry I want to create.

In future, I don't think customers will be thinking about whether to buy something online or from a physical store because they will be able to buy what they want, anytime, anywhere.

Q4: It is clear that your UNIQLO operation in the United States is struggling right now. However, in light of the fact that certain large US players in the apparel industry are closing many of their own stores, do you think your problems are, at least in part, caused by structural problems in the industry as a whole?

A4: CEO Yanai – I think there are two problems with our operation in the United States. The first is an internal problem, namely weak management. I intend to resolve this by sending experienced UNIQLO managers from other parts of the world to restructure the management of UNIQLO USA stores and operations. The second problem is an external one relating to the fact that consumers in the United States are shopping more online and less in suburban shopping malls these days. So we should concentrate on opening impressive global flagship stores and large-format stores in major cities around the US, as well as expanding our e-commerce operations and online sales.

Q5: I have a few questions about UNIQLO USA. Where in the United States will you be

implementing your scrap and build policy of closing less profitable stores and opening larger ones in more appropriate locations? You say that your e-commerce business is strong, but what portion of sales does it account for? Finally, when do you expect to turn a profit in the United States?

A5: CFO Okazaki – We always decide our scrap and build targets on a store by store basis, but, broadly speaking, right now we are looking at closing poorly performing stores in suburban malls. Going forward, we will be more likely to open any new in-mall stores in urban rather than suburban shopping malls. Currently running at approximately 15%, online sales account for a considerably higher portion of total sales in the United States than in Japan. We will be looking to actively expand e-commerce going forward. Finally, we are aiming to turn a profit at UNIQLO USA in fiscal 2017.

Q6: Am I right in thinking you plan to launch your digital flagship store in Ariake, Tokyo from spring 2016?

A6: CEO Yanai – We will start distributing product from our new state-of-the-art Ariake distribution center in spring 2016. Our Ariake distribution center is intended to become both a virtual flagship store and a warehouse for real stores. The plan is to reduce inventory levels at physical stores, and deliver product from Ariake possibly several times a day. We expect to begin operating Ariake as a digital flagship store from the 2016 Fall Winter season.