

Analysts' Meeting Q&A

Business Results for Fiscal 2016 First Quarter (September to November 2015)

Below are the main questions asked at our analyst's meeting about business results for the first quarter of fiscal 2016, or the three months from September through November 2015. The answers have been edited to keep them short and clear.

First-quarter performance was clearly adversely affected by the warm winter, but did your decision to increase prices from 2015 Fall Winter by an average 10% also dampen sales? What is your future pricing strategy?

Takeshi Okazaki, Group Senior Vice President & CFO – In the overall scheme of things, I think the impact of price increases on our business was limited. Higher-priced items launched at the beginning of the season sold well in September and October, and prices didn't seem to affect sales at the time. However, it is difficult to judge just how much of the downturn in sales from November was due to adverse weather and how much to price. For instance, far from slumping, sales of fresh or value-added items actually increased, despite their higher price tag, while sales of some regular items struggled. What I can say is that we will carefully review each product for the upcoming Spring Summer season in terms of price and quality, to ensure we offer customers the best products, at the right price.

Within UNIQLO international, Greater China, South Korea and the United States performance was especially poor, and short of target. Can you tell us how far below target each of these operations were?

CFO Okazaki –The shortfall in Greater China, South Korea and the United States was of similar magnitude, commensurate with the size and sales of each operation.

Within the Greater China region, UNIQLO Hong Kong and Taiwan not only faced a warm winter, but also a downturn in economic conditions. What about conditions in mainland China?

CFO Okazaki – In the first quarter, UNIQLO's operation in mainland China reported a rise in revenue and profit, while operations in both Hong Kong and Taiwan reported a rise in revenue but a fall in profit. Mainland China experienced a warm winter along with the other two markets. However, the scale of mainland Chinese operation is large and we have been opening many new stores, so there was enough positive news to keep momentum going despite the adverse weather.

UNIQLO International performance was clearly affected by warm winters around the world but were there any other factors at play, such as problems with product lineups or harsh competition from other companies?

A4: CFO Okazaki – There were definitely other factors that affected performance at both UNIQLO Japan and UNIQLO International. There must be some issues with UNIQLO’s product mix because, the brand performed poorly compared to say our GU brand in Japan whose first-quarter sales expanded, despite the warm winter. Ultimately, we need to develop a product mix that sells well, even in warm winter weather. We need to avoid focusing too heavily on heavy winter clothing, and include more products that incorporate latest fashion trends. To some extent, our core products should also incorporate fashions trends and news.

Another issue we have to resolve in the second half is that we increased the number of product items too extensively, making it difficult to market each one effectively. As a result, we didn’t do a very good job at telling customers exactly what exciting and new things UNIQLO had to offer. We advertised often on TV, but the ads didn’t resonate too well with customers or stick in their minds. Going forward, we plan to control the number of product items and market them more carefully for maximum customer appeal.

UNIQLO International’s gross profit margin declined 3.4 points year on year in the first quarter. Was that largely due to poor margins at UNIQLO USA?

A5: CFO Okazaki – Our UNIQLO business continued to struggle in the United States and, as a result, we discounted heavily there, and often prioritized a full rundown of inventory. In addition, UNIQLO International cut prices more aggressively in other regions where sales were struggling, and that also contributed to the decline in the operation’s overall gross profit margin.

You mentioned plans to cut costs in the second half from March to August 2016. What magnitude of cuts are you considering in monetary terms, and will you continue this cost-cutting drive into fiscal 2017?

CFO Okazaki – These cost cuts are designed to offset possible weakness in sales and gross margin in the second half, so they would be fairly substantial. Distribution costs and in-store personnel expenses are rising all the time, so we have to offset this by improving efficiency. For instance, areas with clear room for improvement are in the store backyard and distribution. We plan to revise our distribution system in order to reduce store backyard operations. We will also be looking to boost product loading ratios. Naturally, this would be an ongoing rather than temporary measure. We will also be looking to cut costs across our global operations. As a growing business,

costs can swell as business expands. Now is the time to identify and eradicate any unnecessary expenditures.

How far short of target did operating profit fall in the first-quarter?

CFO Okazaki – I can't give you a figure for the first quarter on its own, but, I can tell you that, taking data through December into account, we have revised our operating profit estimate for the first half from September 2015 through February 2016 down by ¥20.0 billion compared to our initial estimate.

How will the Ariake digitalization project affect internet sales?

CFO Okazaki – By encouraging more people to register as UNIQLO members, we will be able to communicate directly with customers. This will change the way we attract customers and market our products. Traditionally, we distributed huge numbers of fliers along with newspapers, etc., an activity that inevitably attracted customers looking for discounts. Going forward we will be able to use the UNIQLO membership system to offer a much broader variety of direct marketing initiatives. These changes in marketing will affect the way we allocate budgets going forward, as well as the services we can offer UNIQLO member customers.

Global El Nino weather patterns hit UNIQLO International performance hard, but what about new store openings? Did they proceed as planned, especially in Asia?

CFO Okazaki – We haven't noted any significant change and our new store openings are proceeding favorably, and as planned. We have, as you know, changed our store expansion strategy in the United States, and are now focusing on building a stronger UNIQLO presence by opening new stores in prime urban locations, and expanding UNIQLO USA's reach by actively expanding e-commerce sales as well.