

Analysts' Meeting Q&A

Business Results for Fiscal 2016 First Half (September 2015 to February 2016)

Below are questions from our analyst's meeting concerning business results for the first half of fiscal 2016. The answers have been edited to keep them short and clear.

Q1: You explained that South Korea, Taiwan and Hong Kong have been adversely impacted by China's economic slowdown, but business profit for mainland China increased in the first half and is expected to increase again the second half. Why is your business in mainland China so resilient?

A1: Tadashi Yanai, Chairman, President and CEO – Just as we use to say, “When America sneezes, Japan catches a cold,” China's neighboring countries depend on the Chinese economy, and they have felt the impact of China's economic slowdown. Demand for luxury goods and overall consumption is slowing in mainland China, but not enough to adversely affect our own profits right now.

Q2: How many stores closures and how much store closure-related losses are you expecting for UNIQLO USA?

A2: Takeshi Okazaki, Group Executive Vice President & CFO – We don't disclose exact figures, but we will likely record similar store-closures costs over coming fiscal years as we experienced in the first half of fiscal 2016. Over the long-term, we will of course allow stores that show potential to keep operating, but we plan to scrap loss-making stores that show little sign of improvement fairly aggressively, so we can open stores with more potential elsewhere.

Q3: You talked about reducing price lines for UNIQLO Japan, but when you do think you will start this?

A3: CEO Yanai – We are doing it already. It is not really a question of reducing price lines, but rather choosing a few set prices that are readily recognizable and understandable to our customers.

Q4: Regarding pricing at UNIQLO Japan, the retail price and the price on the label is sometimes different. Is that because of snap decisions to cut prices?

A4: CEO Yanai – It costs a lot of money to change all of the labels on products, so products that already have a label on them are being sold at the new price at the sales counter.

Q5: How do you intend to set UNIQLO prices going forward, and how will any reduction in

prices affect your gross profit?

A5: CEO Yanai – Given the slowdown in the global economy, we cannot increase prices, so what I want to do is consolidate our price lines into a few set prices, such as ¥1,990 and ¥2,990, which are easily recognizable to our customers. Basically, we are revising our prices to make products easier for customers to select and buy. We increased prices on Fall Winter 2015 items last year and look what an adverse impact that had on first-half performance. But we have learned a good lesson, and so I want to make sure we offer our products at the lowest possible everyday price. What I mean by that is, instead of cutting prices on items just at the weekend, we will offer products at the lowest possible price from the very beginning, regardless of whether it is a weekday or a weekend. I think our customers will appreciate us and trust us more if we maintain the lowest possible prices at all times. I want to pursue this type of pricing strategy because the Japanese economy is certainly not strong and people have been struggling for a long time.

Q6: These latest results indicate some weakening in your previously fast-growing markets such as South Korea, Hong Kong and Taiwan. Was there a problem with the product-price balance in these areas?

A6: CEO Yanai – I think international markets hold huge potential, especially Asia. Roughly four billion people, or over half of the world's population, live in developing middle-class markets, and, so far, they don't own many things at all. As their incomes rise, the first thing they tend to buy is apparel. That is why I want to focus UNIQLO's global expansion in Asia. UNIQLO is already strongly recognized and valued in central urban locations in Asia, Europe and the United States, so I believe the brand will be appreciated throughout Asian markets as well. If you want to be successful in the fashion retail business, you have to display firm fashion and price leadership. I want us to regain a clear grasp of these fundamental points.

Q7: In mainland China, same-store sales turned positive in the second quarter from December to February, but do you sense any risks in relation to the Chinese market?

A7: CEO Yanai – I think China is fine. It has a population of 1.3 billion people and the middle-class population is expanding considerably. The country has only just begun its transformation into a consumer economy and so I expect we will see a large expansion in demand. What is more, a similar trend is occurring across Asia as a whole, and I expect the consumption focus will continue to shift from traditional consumer economies such as Europe and the U.S. to China and other Asian countries.

Q8: You have a target for expanding e-commerce to 30% of total sales, but are you also planning to continue expanding your UNIQLO International store network at the same strong pace? For instance, will you still be opening approximately 100 stores per year in Greater China in fiscal 2017 and beyond?

A8: CEO Yanai – I want to open new stores in only the best prime locations in major cities, so we intend to be increasingly scrupulous in selecting new store locations. I understand there are approximately 200 cities in Greater China with populations of over one million people. If, for instance, we opened 10 stores in each of those locations that would be 2,000 stores, so we could easily achieve our 3,000 store target for the Greater China network. We don't intend to establish e-commerce operations that compete with our store network. Instead, I believe we will capture e-commerce sales precisely because we have a store presence in the neighborhood as well. I am determined to create a business structure where physical and virtual stores can operate profitably side by side.

Q9: The recent appreciation in the yen has pushed up procurement costs, but are you able to take a more aggressive stance in price negotiations with materials and garment manufacturers? Do you expect the cost of sales to increase going forward?

A9: CEO Yanai – As long as globalization and capitalist mechanisms continue to prevail, supply is certain to outstrip demand so a factory can't increase its wholesale price easily. In other words, there are an increasing number of specialist textile bases all across Asia, not just in China. We always look to make better products at lower prices, and we will be doing that even more earnestly going forward.

Q10: You have been reviewing prices at UNIQLO Japan, but how have customers reacted so far? Also, do you expect this new pricing regime to squeeze your retail mark-up ratio?

A10: CEO Yanai – Items that now have lower prices are selling really well. Some product sales have doubled or even trebled. I remain convinced that the easiest products for customers to buy are the ones they know will always be the same price wherever and whenever they buy them. Another point I made when I was talking about changing our business model is that I am very keen to reduce product lead times. By exploiting the direct links between us and our factories through digitalization, we will be able to create and deliver the products that customers want within a minimum time frame, and that should reduce losses from missed sales opportunities or discounting. I believe these sorts of measures will help boost our retail mark up.