

**Analysts' Meeting Q&A**

**Business Results for the First Nine Months of Fiscal 2016 (September 2015 to May 2016)**

Below are questions from analysts about our latest business results. The answers have been edited to keep them short and clear.

**Q1: How much did the launch of your state-of-the-art Ariake warehouse boost costs? How are Ariake warehouse operations progressing, and what impact it is having on in-store distribution procedures, e-commerce, etc?**

**A1: Takeshi Okazaki, Group Executive Vice President & CFO** – I can't give you any concrete figures on the impact of the Ariake warehouse. As for its operation, the warehouse is now distributing goods to stores. We plan to start distribution for online sales very shortly, and expect the warehouse to be up to full strength by the busy fall/winter sales period. The new warehouse distribution system will ultimately impact working practices for instore personnel, but, for now, we are concentrating on establishing smooth and effective operations at the warehouse itself. We are planning to offer next-day delivery on e-commerce items, and are considering offering same-day delivery in some regions for customers who require it.

**Q2: What action are you taking on product development to boost e-commerce sales?**

**A2: CFO Okazaki** – We intend to use the opening of the Ariake warehouse as an opportunity to launch a digital flagship store from this fall. We want to offer customers the opportunity to purchase any UNIQLO product range or item online, in a broader range of sizes. We are also looking at developing some products exclusively for online sale.

**Q3: Your Every Day Low Price (EDLP) strategy seems to have helped boost performance for UNIQLO Japan in the third quarter. Are the gross profit margin and SG&A ratio continuing to improve in the fourth quarter? How do people inside the company evaluate the new pricing strategy?**

**A3: CFO Okazaki** – We introduced a new EDLP pricing strategy in March to encourage consistent purchases on a daily basis. We did this by reviewing our overall pricing framework, keeping prices down, and actively restricting the number of limited-period weekend discounting drives. The new pricing strategy has proved extremely effective so far, by positively impacting both sales and gross margins. Our customers seem to like the new system so we will continue with it.

**Q4: Average customer spend increased by 9% year on year in the third quarter. What underlying factors were at play here? For instance, did you actively reduce the discounting rate to help boost customer spend?**

**A4: CFO Okazaki** – We did reduce the discounting rate, but customers also bought comparatively expensive garments. So average customer spend increased because customers were buying items at their full price and also purchasing comparatively expensive bottoms, etc.

**Q5: The gross margin at UNIQLO USA improved in the third quarter on inventory adjustments, and the operating loss contracted. Are you noting the same trend continuing in the fourth quarter? When do you envisage posting a profit in the United States?**

**A5: CFO Okazaki** – I have explained before how poor sales in the United States generated excess inventory that we had to deal with. Our decision to run down that inventory in fall/winter 2015 adversely affected gross profit margins in the first half. However, we were able to conduct a healthier business in the third quarter thanks to a cleaner inventory situation. With our business now on a much firmer footing in the United States, we are unlikely to experience another sharp fall in the gross profit margin. We have also been cutting costs. Given the improved SG&A ratio and gross profit margin, we are aiming to turn a profit at UNIQLO USA as soon as possible. However, we also need to strengthen our marketing to boost sales at individual stores and build a profitable business. It will take time to build an overall profitable business structure, so it could be difficult for UNIQLO USA to turn a profit in fiscal 2017.

**Q6: You say that consolidated operating profit exceeded your expectations in the third quarter, but by how much exactly in monetary terms? Why didn't you revise up your consolidated operating profit for the second half as a result? Do you expect UNIQLO International profitability will likely decline in the fourth quarter?**

**A6: CFO Okazaki** – I can't disclose the exactly magnitude of the pickup in third-quarter operating profit exceeded forecast, but I can say that it outstripped our expectations and the trend is looking good. The fourth quarter is proving strong and we expect business to go well. We generally do not revise our business forecasts unless we note significant changes. This change was not large enough to warrant any revisions, and so our estimates for second-half revenue, business profit and operating profit remain unchanged. We did however revise down our forecast for profit attributable to owners of the parent after recalculating the finance income/costs component, which is directly impacted by exchange rate movements, based on the end-June exchange rate.

**Q7: Why are e-commerce sales expanding so strongly in Japan?**

**A7: CFO Okazaki** – Our top management is focused on expanding e-commerce to 30% of total sales over the medium term and so has been strengthening e-commerce resources and digital marketing. I think these efforts are starting to pay off. We have also worked hard to expand the number of digital UNIQLO members. In fact, the number of registered UNIQLO customers is growing steadily not just thanks to online efforts, but instore efforts as well. Another significant influence is probably the fact that more and more customers in Japan are now shopping online. I believe e-commerce sales are rising as a result of all of these factors.

**Q8: UNIQLO International generated an operating profit in the third quarter that was in line with expectations, but the gross margin declined year on year. Why was that?**

**A8: CFO Okazaki** – In terms of individual UNIQLO International operations, the sluggish economy continued to adversely impact sales in South Korea, Hong Kong and Taiwan and weigh on profits. When sales are weak, our gross profit margin tends to contract and that is what we saw happen in the third quarter. Since then, we have started to see signs of recovery in these markets and so we

are not overly concerned about the situation at this point in time.

**Q9: UNIQLO Japan's gross profit margin rose year on year in the third quarter. With internal procurement exchange rates having risen on the back of a weaker yen, and the cost of sales increasing in the wake of the new EDLP pricing strategy, it would seem the improvement in gross margin was due almost entirely to lower discounting. Is that a fair assessment, and what do you envisage happening from now on?**

**A9: CFO Okazaki** – Our cost of sales ratio is fairly tight right now, but I believe we can counteract this by restricting discounts. As part of our ongoing EDLP pricing strategy, we have reviewed our product prices and their impact on customer purchases and have decided to make some changes, such as reversing the price increases on fall/winter items introduced in 2015 to make the ranges easier for customers to buy. This is manageable if we control discounts.