UNIQLO Growth Opportunities Are Global

Leap in UNIQLO Brand Recognition in the U.S.

When UNIQLO opened a global flagship store on New York’s Fifth Avenue and a megastore on 34th Street in fall 2011, we received a far greater response from customers than we ever could have dreamed of. I feel that UNIQLO’s profile in the United States received a considerable boost. Owners of U.S. shopping malls now have a greater interest in UNIQLO as an attractive potential tenant and we are frequently approached by developers asking us to open stores in their malls. I believe we now have the opportunity to begin opening UNIQLO stores across the United States.

In September 2012, we opened a new store with an impressive shop floor of 3,300 square meters in New Jersey’s Garden State Plaza Mall. Garden State Plaza is one of the 10 most popular shopping malls in the U.S., and the fact that we were able to open such a large store there shows that U.S. interest in the UNIQLO brand is growing considerably. The opening of our San Francisco Union Square Store on Powell Street was also extremely successful. The next step in the development of UNIQLO USA will be to establish a chain of between 20 and 30 stores in both the New York and San Francisco metropolitan areas.

Unfortunately, UNIQLO USA reported a loss in fiscal 2012, but we believe we can generate a profit within the next two to three years by increasing the pace of new store openings in shopping malls. We are looking forward to cultivating the same kind of successful UNIQLO business in the United States as we have across Asia.

UNIQLO International Sales, Operating Income/Loss

UNIQLO International sales and income rose strongly in fiscal 2012: sales ¥153.1 billion (+63.4% YoY), operating income ¥10.9 billion (+22.9% YoY)
China: The Next Great Consumer Nation

UNIQLO operations in Asia are already growing faster than in Japan. Within Asia, the Chinese market harbors the greatest potential. China is likely to transform into a significant consumer nation over the next five to ten years as the government gradually shifts its policy emphasis from export growth to boosting internal demand. China’s population of 1.3 billion is 10 times the size of Japan’s, so it is one of the most important markets for us.

UNIQLO’s reputation in China is on a par with global retailers such as ZARA and H&M. In recent years, we have been approached by multiple shopping malls there to open new stores. In fiscal 2012 we opened 65 new stores in China. In fiscal 2013, I want to open at least 80, possibly even 100. In fact, I want to open 100 stores in China each year for the next 10 years. Our ultimate target is 3,000 UNIQLO stores across China.

We did experience the slowdown in the Chinese economy in early 2012, but we saw this as a good business opportunity. Successful retail companies always expand operations in times of economic slowdown, when terms are more favorable and you can open more stores. Stores with strong sales always attract customers. I believe now is a perfect opportunity to grow our UNIQLO business in China, and that is just what we intend to do.

Explosion in Middle-Income Population to Create Opportunities in Asia

The size of the middle-income population in China, Southeast Asia and India is predicted to explode over the next 10 years. As a result, there are many attractive markets in Asia, and I want to accelerate the pace of new store openings throughout the region. We may well see in Asia a repeat of Japan’s period of rapid economic growth, when consumer demand soared along with the desire to shop for clothes. We believe Asia is likely to experience a similar boom in demand for clothes. The Asian market could expand beyond even our expectations and, if UNIQLO is to become the number one brand in Asia, we feel it is vital to secure a share in it. UNIQLO’s reach and popularity now extend to Singapore, Malaysia, Thailand and the Philippines. Each new store in these markets has enjoyed strong sales from the outset and every operation quickly became profitable. We plan to expand into Indonesia and Australia in 2013, and we are also considering the Indian market.
Securing Leadership in the Global Marketplace

Leveraging Unique UNIQLO Strengths to Gain Price Leadership

Our g.u. casualwear brand performed extremely well in fiscal 2012, with sales expanding over 80% year on year and operating income reaching 5.0 billion yen. This breakthrough for g.u. can be attributed to the brand’s attractive, trendy fashion items and its fabulously low prices. Now UNIQLO must regain the same momentum it enjoyed after it amazed customers with its 1,900 yen fleece jacket, which set off a fleece boom.

UNIQLO customers and g.u. customers look for clothes in different price ranges. Japanese consumers are extremely sensitive to price, and UNIQLO needs to offer even more attractive prices without sacrificing its renowned high quality. To this end, we are reviewing the procurement and cost of our materials. No other apparel manufacturer uses as much cotton, wool or cashmere as we do. It should be possible to reduce costs further by securing large volumes of materials for our exclusive use. Costs might also be reduced by streamlining the production process and slashing losses on discounted items.

Our aim is to secure price leadership worldwide. In order to develop full-fledged nationwide networks in China and other parts of Asia, we will open stores outside of major cities, which will entail reducing the standard price of UNIQLO products. One of our strategies to meet demand for lower priced garments is opening joint UNIQLO/g.u. stores.

Fashion Leadership Built on Quality Basic Clothes

UNIQLO is determined to gain fashion leadership by offering basic clothes with attractive fashion features, exciting new elements and revolutionary functionality. We want to develop clothes that customers truly desire, clothes that suggest entirely new ways to dress. Fortunately, the Fast Retailing Group boasts stylish women’s fashion brands such as Theory, Comptoir des Cotonniers and Princesse tam.tam. We are looking for ways to incorporate their product development strengths into UNIQLO’s design process through the creation of Group-wide product development centers in New York and Paris. This will help UNIQLO develop basic clothes that offer both a high-quality finish and fresh appeal.

First down jacket developed by UNIQLO x theory
Exciting New Developments for UNIQLO Japan

BICQLO: A Collaborative Store That Delights

Investors sometimes ask me if UNIQLO has reached its saturation point in Japan. UNIQLO Japan did achieve sales of 620.0 billion yen in fiscal 2012, but that represents less than 6% of the 10 trillion yen Japanese apparel market. We should be able to increase that share.

To that aim, I want to create megastores to delight customers in Japan’s major urban shopping spots, including Shinjuku, Ikebukuro, Harajuku and Shibuya in Tokyo, Umeda in Osaka, and Nagoya. The BICQLO Shinjuku East Exit Store, opened in September 2012, is what we call a “global hotspot store.” For the first time, UNIQLO joined forces with BIC CAMERA, a leading consumer electronics retailer, to create an entirely new kind of store that adds entertainment to the shopping experience. If a similar opportunity arises involving a partner in the apparel or manufacturing industry outside of Japan, I would love to try and create new retail experiences in other markets.

UNIQLO for Women
UNIQLO MARCHÉ: Five Brands under One Roof

We opened the UNIQLO MARCHÉ Printemps Ginza Store in November 2012 on the sixth and seventh floors of the Printemps Ginza department store. I wanted to make the best use of the beautiful Printemps Ginza environment to create a store for women that shows off five rich and unique Fast Retailing Group brands.

Having UNIQLO, g.u., Princesse tam.tam (the brand’s first store in Japan), Comptoir des Cotonniers and Theory’s PLST label all under one roof enables customers to compare styles and prices, and enjoy their shopping experience all the more. The store also presents down jackets by UNIQLO x Theory and UNIQLO x Comptoir des Cotonniers, the first garments we have created through inter-brand collaboration.

At our new store we welcome Printemps Ginza’s female customers, who are typically working women in their 20s to 40s, as well as the entire range of customers who frequent department stores in Ginza. To me, this space is a vibrant market for fashion—a veritable fashion marché.
The global apparel companies that have enjoyed the greatest growth are the ones that have focused on extremely low-priced clothing. Such demand has grown strongly in developed nations including in the U.S. and the U.K. I asked myself how we would fare if low-priced brands like Britain’s Primark or the U.S.’s Target entered the Japanese market, and I concluded that we had to create a new retail format in Japan for amazingly low-priced clothing—and we had to do it fast! Now, our g.u. operation offers just that: fun fashion at fabulously low prices.

The first g.u. store opened in October 2006. Since then, g.u. has enjoyed great exposure through both TV commercials featuring popular celebrities and the opening of the flagship g.u. Ginza Store in March 2012. The g.u. brand has a loyal following among young women and was highly profitable in fiscal 2012, with sales expanding by over 80% to 58.0 billion yen and operating income rising to 5.0 billion yen. But the bargain-priced apparel market transcends national borders. We should expand the newly empowered g.u. brand outside of Japan as soon as possible to boost its global competitiveness. We could even open g.u. and UNIQLO stores together in foreign markets.

In fiscal 2013, we aim to open 60 g.u. stores and boost g.u. sales to 80 billion yen, and then to 100 billion yen in fiscal 2014. Given its potential for significant global expansion, I want to position g.u. as the second mainstay operation of the Fast Retailing Group after UNIQLO.

Fast Retailing’s Long-Term Vision
To create a 5 trillion yen business by 2020, by nurturing multiple business pillars alongside UNIQLO.
A Universal Employee Training System

Management Training Begins in Earnest

As the scale of the Fast Retailing Group expands, we need to create a new management system. In recent years, we have been expanding our operation in China, but it has proven difficult to hire and train the right managers for new stores. However, UNIQLO is now ranked number one in the apparel industry in popularity surveys taken among recent Chinese university graduates, and we hired approximately 500 new graduates in China, Hong Kong and Taiwan in fall 2012. Today, we attract young people who share our aspirations and want to work in a revolutionary apparel company. We have begun hiring and training these future managers in earnest through four regional headquarters: New York, Paris, Shanghai and Singapore.

New employees are trained in their regional headquarters. In addition, they participate in management training programs and receive practical in-store experience tailored by the Japan-based Fast Retailing Management and Innovation Center (FRMIC). Here they can also learn about our corporate philosophy firsthand and truly take it to heart.

Tokyo Global HQ and Four Regional HQs

Aspiring to Be a Truly Global Company from Japan

When I returned to the position of UNIQLO CEO in 2005, I laid out a three-pronged mission: to strengthen Group management, promote globalization and refocus on entrepreneurial values. I want to conquer global markets by expanding all brands in the Fast Retailing Group. Japanese employees should practice and perfect their skills abroad, and capable employees from all over the world should be able to work in Japan. We also need a group of top managers who can make smart, swift decisions in their operational environments. All of this is vital for our quest to become a truly global company from Japan. Fast Retailing’s job is to train employees who constantly keep that goal in mind and strive to achieve it.
Our corporate philosophy, the Fast Retailing Way, was designed to help us be a good company. As part of our corporate mission—“Changing clothes. Changing conventional wisdom. Change the world”—we strive to provide people all over the world with truly great clothing. The Fast Retailing Way is rooted in important elements of Japanese culture—a passion for fine craftsmanship, an emphasis on superior customer service and a work ethic that values diligence and teamwork.

Fast Retailing encourages every employee to adopt the mindset of a business manager. I want all Group managers and employees to have the same strong ambition. They should aim to be the world’s best, while staying firmly grounded in their immediate surroundings.

As our Group founder, I realized I could not just retire at 65, and I am excited that our global expansion is finally becoming a reality. However, I feel it is important to cultivate a strong senior management team by passing on more responsibility for the day-to-day implementation of the business to younger managers and allowing them to refine their skills and promote their own ideas.

Our business and CSR activities are like the two wheels of a bicycle turning in tandem. When our customers buy our clothes, we also want them to buy our corporate spirit—who we are and what we stand for. To become a truly global company, we must be a truly good brand.

We continue to help victims of the March 2011 earthquake in northeast Japan, having donated the equivalent of 3.3 billion yen through the UNIQLO Recovery Assistance Project. As of October 2012, we had donated 5.19 million items of clothing to refugees and displaced people in 22 countries through our All-Product Recycling Initiative. In May 2012, we named tennis star Novak Djokovic as our UNIQLO Global Ambassador and in October we helped establish a $10 million fund for children worldwide.
Pursuing M&A to Strengthen Our Operational Base

I believe one way of pursuing growth for the Fast Retailing Group is through mergers and acquisitions. M&A can facilitate the expansion of our brand portfolio and help create multiple profit-generating pillars within the Group. M&A can also help us find partners who will facilitate a meaningful expansion of the UNIQLO brand in Europe and the United States.

In December 2012, we purchased a majority share in J Brand Holdings, a leading U.S. contemporary denim company. Going forward, we hope to draw on J Brand’s expertise to boost Fast Retailing’s denim product development across the Group. Our Theory operation, in which we first began investing in 2004, is performing extremely well and is fast developing into a one billion dollar business.

The Theory purchase illustrates how Fast Retailing can use the acquisition of affordable luxury brands to create multiple profit-generating businesses in addition to the UNIQLO brand, and establish an even stronger operational base for the Group. Furthermore, we can utilize the Group’s global operational platform to develop newly acquired brands into full-fledged global brands in their own right. I believe that owning a diversified group of companies also brings benefits for the UNIQLO operation in areas such as product and store development. These M&A opportunities are likely to become increasingly important as our global presence continues to expand.

Strong Performance Provides High Shareholder Dividends

I believe that returning profits to shareholders is one of the most important objectives for Fast Retailing management. Our policy is to offer high dividends that closely reflect business performance. Essentially, we use profits to fund future business expansion, with the aim of retaining earnings that will ensure healthy finances and provide good shareholder returns. In fiscal 2012, we paid an annual dividend of 260 yen, generating a consolidated payout ratio of 37.0%.