

Uniqlo faces tough climb to conquer suburban US

Japanese billionaire's foray into world's biggest clothing market is dogged by losses

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When Tadashi Yanai, the Japanese billionaire who founded Fast Retailing, opened a flagship Uniqlo store on New York's Fifth Avenue in 2011, he said it was "the happiest day" of his life.

He believed then that the chain's arrival at that prime US shopping destination took it a big step closer towards overtaking its larger global rivals, Inditex of Spain, the parent of Zara, and Sweden's H&M.

But a decade after Fast Retailing's first foray into the US market in 2005, Mr Yanai's dream of becoming the world's top brand remains just that.

The owner of the Uniqlo casual clothing chain has lost \$5bn in market capitalisation — a drop of more than 12 per cent — since it shocked investors last week with a rare miss in its annual profit targets.

Executives blamed the expanding losses at its US operations on the brand's low recognition in suburban America and on weak management.

But analysts say the problems in the US run deeper. "They need to redo everything from products, branding, ecommerce to management," says Sho Kawano, an analyst at Goldman Sachs. "There is a mountain of challenges ahead."

Mr Kawano estimates US losses tallied more than ¥10bn (\$84m) for the fiscal year that ended in August, and anticipates the US business will remain

lossmaking. While the company does not disclose US revenue, Mr Yanai has said he wants it to reach ¥100bn in three years. Sales in China, Hong Kong and Taiwan have already topped ¥300bn.

Having aggressively pursued a global expansion plan, a humbled Mr Yanai said the retailer would be more selective about choosing store locations. In the year ahead, it plans to open only five Uniqlo stores in the US compared with 17 for the 2014-15 fiscal year.

"We're going to bring together and dispatch to the US our elites worldwide to rebuild our management," he said.

Fast Retailing is not alone in its difficulties in the world's biggest clothing market. Earlier this month, American Apparel, the US retail chain that won fame with its "Made in America" tag, filed for bankruptcy protection. Other teen retailers such as Abercrombie & Fitch and Aéropostale have also struggled. Shares in Walmart and other US retail chains fell hard yesterday after

the world's largest retail chain warned that earnings would fall in the 2017 fiscal year.

Rival Japanese retailers are also facing hurdles in replicating their successes in Asia in western markets. Ryohin Keikaku, which operates Muji stores, logged an operating loss of ¥482m in Europe and the US during the March to August period while profits in East Asia grew 95 per cent year on year to ¥7.8bn.

However European groups that specialise in fast fashion, most notably Zara and H&M, have thrived in the current climate where US consumer spending is constrained. US retail sales grew a disappointing 1 per cent in September.

Uniqlo's efforts to crack the US market date back to 2005 when it opened stores in three malls in New Jersey.

A year later, it shut the stores and instead opened a lavish flagship store in Soho, New York, shifting its focus to big cities. In the years since, the company has once again tried opening stores in

suburban malls, with mixed success.

Mr Yanai has publicly expressed interest in acquisitions to strengthen Fast Retailing's overseas profile. But its attempt to gain a partner in the US unravelled following a failed \$900m bid to buy Barneys New York in 2007.

It has since carried out smaller acquisitions, taking full control of Theory in 2009 and buying J Brand, a US denim wear label, in 2012. There was much talk last year that Fast Retailing was interested in US chain J Crew but a bid did not materialise.

Even without success in the US, most investors expect that booming sales in Asia will keep Fast Retailing's growth story intact.

Annual revenue reached an all-time high of ¥1.68tn, propelled by a 46 per cent rise in sales in China, Hong Kong and Taiwan which offset its US setback. Same-store sales rose 6.2 per cent year-on-year at Uniqlo stores in Japan, although that growth rate is expected to slow to 4 per cent in the year ahead. The company does not give same-store sales figures for overseas outlets.

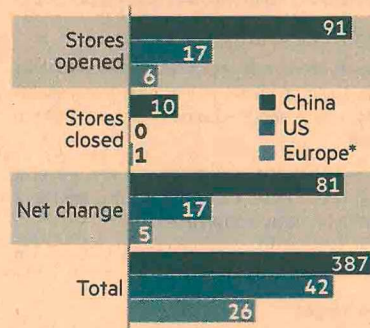
Fast Retailing, which operates more than 1,600 Uniqlo stores worldwide, expects the number of overseas stores to top the number of domestic outlets in the current financial year.

Still, both company executives and analysts admit the US business is pivotal to Fast Retailing's aspiration to become a top global player — and potentially the only market left that could become a new growth driver for Uniqlo.

"It's impossible without the US," says Takahiro Kazahaya, a Deutsche analyst. "It should continue with the challenge and the company has earned the right to continue since it makes money."

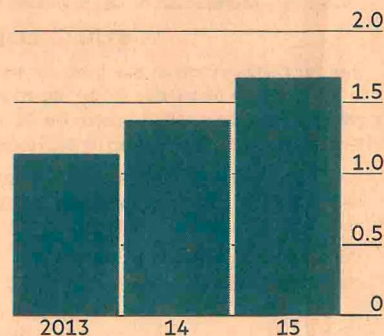
Uniqlo store numbers

FY 2015



Fast Retailing revenues**

¥1tn



* UK, France, Russia and Germany ** International Financial Reporting Standards (IFRS)

Source: Fast Retailing