**International Trade Finance**

**Final Project**

UNIQLO – Retail - Turkey

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# Executive Summary

* Fast Retailing Co. Ltd., a global fashion retail giant, seeks to strategically expand into Turkey, targeting the growing fashion market in Istanbul. Uniqlo, its flagship brand, known for quality and affordability, has a history of successful international ventures, making the move into Turkey a logical progression. Fast Retailing Co. Ltd. is the buyer in this transaction, while the sellers consist of various lessors of retail spaces and local suppliers for store setup.
* The Turkish fashion market is in a promising state, which is the main reason this trade transaction was chosen. Turkey is a desirable location for Uniqlo because of its diverse population and fashion-conscious customers. This venture can be able to capitalize on the company's strengths in producing high-quality, comfortable apparel at accessible prices.
* There are several strong benefits to Fast Retailing Co. Ltd.'s strategic entry into Turkey. Istanbul offers a sizable market opportunity for Uniqlo's goods because it is a multicultural city. The city's booming fashion industry aligns perfectly with Uniqlo's brand strength, which is characterized by comfort, quality, and style. The company's strong financial performance and a history of successful international ventures position it favorably to capture the Turkish market's potential. Uniqlo can take advantage of the long-term benefits that this expansion offers, including increased market share and profitability.
* There are also certain challenges to consider. Currency exchange risk is a possible issue in Turkey, where changes in exchange rates could influence financial outcomes. Furthermore, to achieve success in the highly competitive Turkish fashion market, a well-thought-out strategy is necessary. To mitigate these challenges, the company can conduct thorough market research and may consider strategic partnerships.
* To expand into Turkey, Fast Retailing Co. Ltd. has the capacity to invest ¥2.728 billion (25 million CAD). The investment will pay for the costs associated with finding retail spaces in busy malls, securing licenses and other regulatory approvals, and starting up operations. The company envisions a two-year return on investment. The due dates and payment terms for this transaction will be in alignment with the project timeline. Detailed payment schedules and terms will be discussed with the bank upon acceptance of the proposal.
* The financing proposal outlines the comprehensive information required from the bank, emphasizing the importance of a detailed business plan, audited financial statements, and collateral details. Security options, including personal guarantees and revenue pledges, provide assurance to the bank regarding the loan's repayment.
* Ensuring risk mitigation for the bank involves not only financial stability but also proactive measures. A strong business plan, backed by solid financials and accounts receivable insurance, along with a well-defined risk mitigation and contingency plan, demonstrates Fast Retailing Co. Ltd.'s commitment to a successful and secure venture into Turkey.
* The detailed cost breakdown for various aspects of the expansion, including market research, infrastructure setup, inventory, marketing, staffing, and contingency, provides a transparent view of the financial requirements. The financial analysis projects revenue, profit margins, and return on investment, offering a clear picture of the anticipated financial outcomes.
* Fast Retailing Co. Ltd.'s extensive trade experience, global success in expanding Uniqlo to over 2,250 locations in 25 countries, and effective management styles contribute to its capabilities. The company's financial strength, highlighted by a 20.4% return on equity, positions it as a credible and reliable entity for this strategic venture into the Turkish market.

# Risks and Risk Mitigation Strategies

The expansion for Uniqlo’s business operation into Turkey is an exciting venture, however, it also presents several risks that need to be carefully addressed. Conducting a risk assessment can be akin to a crystal ball for helping companies to see into the future. The aim is to help Uniqlo to identify or anticipate specific or country risks. By doing this Uniqlo would learn the potential impact on the business caused by the purposes of each risk. Without a meticulous risk assessment, the company might find itself unprepared for unexpected changes in the local business environment, risking potential setbacks to the expansion project.

To take the next step, and execute international expansion, Uniqlo must have solid risk mitigation strategies in play. Being proactive and diversifying the business, carrying out in-depth market research to determine if there is a demand for Uniqlo products in Turkey, meticulous financial planning, and having contingency plans in place are the four high level risk strategies that could shield Uniqlo from rising concerns therefore, making its expansion more advantage, rewarding and minimal risk. This would ultimately affect the success of Uniqlo’s expansion into Turkey.

In the context of Uniqlo's expansion to Turkey, we are considering the following risks and potential risk mitigation strategies:

## 2.1 Country Related Risks

### 2.1.1 Political and Regulatory Risk Assessment

Risk: Changes in Turkish political or regulatory landscape could have an impact on the operations of the company. Political risks are risks caused by changes occurring in a country's government or in the position of a government, such as unfavorable regulatory changes, that could affect the company's negotiations or performance of a business arrangement. These risks can result in unanticipated costs to the company or in business disruption.

Mitigation Strategy:

* Uniqlo will conduct comprehensive analysis with respect to political and regulatory factors in Turkey.
* They will keep themselves updated about the government changes and try to be proactive towards those changes (Husband, 2021).
* Also develop effective government relations thus helping in identifying the main decision makers and develop alliance with organizations having strong contacts with the government (Halliday, 2020).

### 2.1.2 Economic Risks Management:

Risk: If Turkey's financial climate were to succumb to instability and lead to economic downturns or fluctuations, it could very well reshape the way company manages their money— casting a ripple effect on how Uniqlo rings up transactions and its overall financial health.

Mitigation Strategy:

* Regularly monitor key economic indicators in Turkey to stay informed about consumer spending patterns (Sukkar, 2017).
* Develop a dynamic strategy for pricing and inventory management that adjusts pricing strategies based on local economic conditions (Husband, 2021).
* Offer flexible pricing options and optimize inventory to align with market demand.

### 2.1.3 Cultural & Social Risk Management:

Risk: Cultural and social risks such as differences in the Turkish consumer preferences and cultural norms could adversely affect Uniqlo’s ability to resonate with the local market, which in turn could impact brand perception and sales (Halliday, 2020).

Mitigation Strategy:

* Engage in extensive market research to recognize Turkish consumer preferences and cultural norms.
* Develop a localized marketing and product strategy that aligns with the tastes and preferences of the Turkish market.
* Develop culturally relevant marketing campaigns that resonate with Turkish consumers.
* Ensure that Uniqlo's product offerings resonate with Turkish consumers.

## 2.2 Buyer Risks

### 2.2.1 Consumer Preferences and Competition

Risk: Turkish customers may have different preferences and behavior than the established markets of Uniqlo, which typically sell to mainstream consumers. Turkey may also prove to be a very competitive market, with both local and international “cheap chic” or fast-fashion brands in a struggle for sales.

Mitigation Strategy:

* Implement a robust system that analyses market trends, customer feedback & sales data to adjust product offerings based on this analysis (UNIQLO Business Strategy, 2022).
* Identify key competitors in the Turkish market and conduct a thorough analysis of their strategies.
* Differentiate Uniqlo's brand by highlighting unique features, emphasizing quality, or offering products that cater specifically to the Turkish market.
* Train people to become senior managers who consider the unique characteristics of various cultures and climates and make sure the selection of products and services are tailored to meet local customer needs (UNIQLO Business Strategy, 2022).
* Adapt to changing demographic, cultural, and fashion trends, as well as consumer preferences for sustainability and ethical practices, to stay relevant in the market.

### 2.2.2 Brand Perception Management

Risk: The venture into the Turkish marketplace could pose certain challenges for Uniqlo, as the brand isn’t a household name in Turkey just yet. There’s also the potential that some misconceptions might circulate amongst consumers, which would require proactive addressing by Uniqlo to clear up any confusion and firmly establish its presence.

Mitigation Strategy:

* Uniqlo ought to spend funds on marketing campaigns developed specifically for Turkey, emphasizing on the company’s values, quality & unique selling points (Mchunu, 2023)..
* Employing local media through which the Turkish people are likely to receive information would provide the opportunity to convey messages more effectively (Mchunu, 2023)..
* Uniqlo should coordinate with local influencers and celebrities to take advantage of their already existing audiences. A celebrity could say that they love our sweatpants, or one of the influencers could tell their story of their first time wearing global (Mchunu, 2023).
* Uniqlo can differentiate their brand by highlight the unique features, the high-quality and, finally, the product which cater specifically to Turkish market (Uniqlo: The Strategy Behind the Global Japanese Fast Fashion Retail Brand, 2021).

## 2.3 Transaction Risk

### 2.3.1 Logistics and Supply Chain Optimization

Risk: The term "logistical and supply chain risk" is used to describe the exposures to future events or circumstances that could cause problems for the supply chain. Such risks are often perceived in terms of their potential impact to disrupt the flow of goods and services in, and the flow of payments in business transactions. The following list provides numerous examples of logistical and supply chain risks:

* Supplier bankruptcy
* Economic downturn
* Natural disasters (e.g., flood, earthquake, tornado, hurricane, etc.)
* Political instability (e.g., terrorism, war)
* Ethical lapses (e.g., slavery, child labor, counterfeiting)
* Cyber-security threats

Mitigation Strategy:

1. Uniqlo must work on diversifying their base of suppliers to hedge against the risk of major disruptions (RiskOptics, 2023).
2. Building more robust logistics and inventory management systems is a great strategy for Uniqlo, potentially keeping more stockpiles on hand to deal with supply chain issues (McCue, 2023).
3. Embracing digital technologies such as advanced analytics, AI, and machine learning which are transforming the way companies can gain visibility into their supply chains and respond to changes (Knowledge Center, 2023).

### 2.3.2 Currency Exchange Risk Management

Risk: Currency exchange risk management describes the potential effect from adverse moves in exchange rates on international financial transactions. This risk arises when a company trades in a currency other than its base currency (Ganti, 2020). The risk is that taking on currency manages your money buying or selling foreign trade will pass on negative results through cash flows generated by the transaction, equating in losses to the business (CFI Team, n.d.).

Mitigation Strategies:

* By using financial instruments like forwards, options, or currency exchange traded funds, Uniqplo’s international transactions could be defended from currency risk addressing the hedge strategies (Anthony, 2022).
* Uniqlo is recommended to operate in fully convertible currencies like the US dollar, Euro, Japanese yen, and British pound to avoid the losses caused by fluctuations from conversion into other currencies (O'Brien, 2020).
* Uniqlo can use contracts to divide the risk occuring from exchange rate fluctuations (Picardo, 2023). They can enter into a foreign exchange contract with their Turkish counterparties so that no matter what the exchange rate is, the price of them will always be the same so that Uniqlo can have a stable price with next to no risk from exchange rate fluctuations. They can do the same with the countries they source products from.

## 2.4 Financial Risk

### 2.4.1 Capital Allocation & Budget Planning Risk

Risk: Capital allocation and budget planning risk denotes the possibilities that if Uniqlo choose a misallocation of its capital or fails to plane the budget appropriately, it may give rise negative impact on its financial performance, which may lead to major financial loss.

Mitigation Strategies:

* Uniqlo should implement an official capital allocation framework (IMF, n.d.). Additionally, Scenario planning would identify the potential risks and opportunities enabling Uniqlo to adjust the allocation of capital and its budget planning (Deloitte, 2023).
* New market expansion of UNIQLO can be accelerated by adding the environmental, social, governance (ESG) factors into the yearly budgeting capital allocation which will help Uniqlo to identify their risk and opportunities, thereby adjust their strategies accordingly (Deloitte, 2023).
* Uniqlo should follow expenditures planning over a multi-year horizon, by doing so, they can then determine future spending implications of present policies, particularly the recurrent costs of capital spending (IMF, n.d.).

### 2.4.2 Revenue and Profitability Monitoring

Risk: Revenue and profitability monitoring constitute the continued examination of the revenue streams and profitability of a business in the international market. This includes monitoring how currency rates, market forces, and operational elements yield different amounts of revenue and profit and affect the business.

Mitigation Strategies:

* Uniqlo should be performing comprehensive market analysis and forecasting to predict changes in the demand, pricing, and any competitive elements that would result in the changing of revenue and profitability for the company’s business in Turkey (Russo, 2023).
* Uniqlo must engage with Regularly reviewing financial statements and conducting in-depth analysis to identify trends, opportunities and risks that can affect revenue and profit (Russo, 2023).
* An Additional way to lower the risk impact for Uniqlo will be to develop and deploy activities that will enhance operational efficiency, decrease costs, and optimize the allocation of resources in the pursuit of increased revenue and the maximization of profits (Russo, 2023).

Certain Enterprise-wide risk mitigation strategies, which were extracted based on our research and literature studies are: Conducting regular risk assessments to identify various types of potential risks and vulnerabilities in all the different units and departments of the company based on specific risk mitigation concepts like Value at Risk (VaR) analysis.

Having the right risk mitigation strategies in place to address challenges allows Uniqlo to not only manage matters ahead on but also provide a more planned and steadier stream of business, negating financial uncertainty and thus, a sustained market presence.

# 3. Financing Proposal

Here's a detailed list of what an organization might need:

**Business Plan**: A comprehensive plan outlining the Uniqlo's roadmap for the organization's future. It encapsulates the business's objectives, strategies for growth, and precisely how the loan will be utilized.

**Complete Financial Statements:** Documents to demonstrate the organization's financial health and repayment capability. Audited or reviewed financial statements are preferred.

**Credit History:** Both personal and business credit histories of key individuals in the organization is a beneficial document to have.

**Collateral Information:** Details about assets or properties that could serve as collateral for the loan, offering security to the lender in case of default.

**Legal Documentation:** Business licenses, permits, partnership agreements, and other legal documents to verify the organization's legitimacy and structure.

**Tax Returns**: Tax returns for individuals and businesses for a predetermined time frame, often the last few years, to evaluate the financial situation and tax compliance.

**Debt Schedule**: A breakdown of existing debts or liabilities the organization holds, which helps the lender understand existing financial obligations.

**Complete details on Accounts Receivable:** Payments that business is expected to get by its customers for goods or services provided on credit including aging, account-by-account information, and sales and payment history (Berry, 2023).

**Complete details on Accounts Payable**: Accounts payable (AP) refers to the money a Uniqlo owes to its suppliers or vendors for goods and services received but not yet paid for.

**Personal Guarantees:** That wouldn’t be required for Uniqlo however in some cases, lenders might ask for personal guarantees.

**Bank Statements:** Bank account statements from Uniqlo to shed light on its cash flow and financial transactions.

**Agreement on Future Ratios:** Some commercial loan includes agreement on to keep some ratios like quick ratio, current ratio, debt to equity, etc. within agreed limits.

## 3.1 Security to the Bank

It's critical to carefully consider which assets or guarantees are possible for Uniqlo and most appealing to the bank when offering security choices.

**Collateral:** In the world of finance, collateral is an item that is promised by the company who receives the loan for a security purposes. (Kagan, 2023). Physical assets or cash and other liquid assets like stocks, bonds, or other investments that the business or its stakeholders own can be used as collateral. Collateral secures the loan lender and at the same time enables the lower interest rates for the borrower.

**Personal Guarantees:** The business owner may pledge personal assets or personal guarantees as security.

**Bank/ Financial Covenants:** These are the contracts that a business has with its lenders guaranteeing that the business will follow specific guidelines established by the lenders which would keep the company in line with the bank’s expectations to be able to pay back.

**Revenue or Cash Flow Pledges:** As Uniqlo has good cash flow, company can show a consistent cash flow or a portion of future earnings as security.

**Insurance or Guarantees:** The bank can reduce risk by obtaining third-party guarantees or insurance policies that cover the loan.

## 3.2 The Risk of the Bank

The risk that banks is taking is the risk of nonpayment. To mitigate this risk, Uniqlo needs to have the following:

**Strong Business Plan and Close Follow Up:** The road map of the company must be realistic and followed closely with a key performance indicator to align with the future goals. That will mitigate the risk of failure of the business which make them able to pay back.

**Strong Financials:** Stability and ability to repay debt are demonstrated by a strong balance sheet, steady cash flow, and profitability.

**Accounts receivable insurance:** Uniqlo can make this insurance to protect itself against losses from non-payment of trade debts owed by customers. That would strengthen the cash flow and relatedly mitigate the risk.

**Risk Mitigation Plan:** Uniqlo need to evaluate the risks and need to have mitigation strategies to keep its financial stability.

**Contingency Plan:** A contingency plan is a proactive approach or series of steps implemented to handle possible hazards, unanticipated circumstances, or emergencies that might interfere with an organization's regular business operations which would safeguard cash flow and balance sheets.

## 3.3 Cost Breakdown

Detailed Market Research Cost: ¥54.6 million (C$500,000)

Research costs, feasibility studies, store locator cost, customer preference analysis, legal and regulatory compliance research etc.

Infrastructure Setup: ¥436.86 million (C$4,000,000)

Store rents, renovations, and interior design for 5 stores. Average 836 sq meters store's rent with a 516 Turkish lira per sq meters is 431,376 Turkish Lira approximately ¥2.4 million (22,000 CAD) per month (Statista, 2023). 5 stores 2 years rents equal to ¥288.29 million (2,640,000 CAD). Rest is planned for an interior design.

Inventory and Stock: ¥1.091 billion (C$10,000,000)

5 Big stores with a lot of spaces to display, initial clothing stock, transportation, import duties, and storage is expected to be ¥1.091 billion (C$10,000,000).

Marketing and Advertising: ¥272.95 million (C$2,500,000)

A marketing budget range from 5 to 25 percent of a company's revenue or targets (Nuphoriq, 2019). But it is a highly competitive market with a strong competitor already shows existence therefore for Turkey marketing budget is expected to be 15 % which is equal to above number.

Staffing and Training: ¥218.36 million (C$2,000,000)

Average 20 staff with an average 20,000 Turkish Lira / 1000 CAD calculated for the 5 stores including recruitment and training.

Contingency and Buffer: ¥218.36 million (C$2,000,000)

One of the highest inflations in the world with a 72.3 % on 2022 (WorldData, 2022). Therefore, requires more buffer for planned expenses increase or unexpected cost.

## 3.4 Financial Analysis

Projected Revenue: Based on market research, anticipated market share, and sales forecasts, projecting annual revenues of ¥3.25 billion ($30 million CAD) in the first year and ¥4.37 billion ($40 million CAD) in the second year.

Profit Margins: Uniqlo’s Southeast Asia, Australia, and India’s profit margin is 19% and North America and Europe had profit margin of roughly 10% (Fast Retailing Co., Ltd., 2023). Turkey is estimated to be between with 15 %.

Return on Investment (ROI): Anticipating a gradual increase in profits, expecting to achieve breakeven by the end of the first year and a return on investment in the second year.

## 3.5 Borrowing Costs

Loan Amount: ¥2.728 billion (25 million CAD).

Interest Rate: Negotiated at 5% per annum. (Uniqlo has own cash to cover this however this cash will be used for other investments to generate revenue)

Loan Term: Two years.

Borrowing Costs Breakdown:

Interest for 2 years: ¥272.88 million (C$2,500,000 (5% of 25 million CAD for two years))

Other Associated Costs: Legal fees, administrative costs, etc., estimated at ¥109.14 million (C$1,000,000).

# Capabilities

Uniqlo is an originally Japanese fashion brand that has been operating globally in the retail industry since 1949.

## 4.1 Success in Global Expansion

Fast Retailing Co. Ltd. has a track record of successfully expanding internationally through its subsidiary Uniqlo. Operating in several nations, Uniqlo demonstrates the company's capacity to handle a variety of markets. As of September 2019, the brand has surpassed 2,250 locations across 25 countries spanning Asia, Europe, and the United States, an achievement that spans a mere 22 years. With a market valuation of more than USD 49.2 billion, Fast Retailing’s value is around 50 billion USD, and it has almost 60,000 employees worldwide. For the year ending in 2020, Fast Retailing achieved revenue of USD 22 billion and profit of USD 2.5 billion. (Martinroll, 2021).

## 4.2 Global Brand Campaigns

Just after opening its first branches outside Japan, Uniqlo achieved to introduce a very successful brand campaign worldwide, "The Science of LifeWear," in 2016. Prior to this, the company mainly ran local and regional efforts; none of these were genuinely global. This avant-garde approach to launching the brand was fresh and exciting, and it fits perfectly with Uniqlo's ongoing dedication to LifeWear's quality, practicality, and style. It's a huge win for Uniqlo's ambitions to become a world-renowned, motivational apparel label (Martinroll, 2021).

## 4.3 Localization of Pricing and R&D

The main goal of UNIQLO's internationalization process is to make its goods affordable to people all over the world. UNIQLO selects different products for different countries. For example, in the US, UNIQLO sells higher-quality items at higher prices, but in Asian countries, especially Southeast Asia, the company may leave out some designs that don't seem important in order to sell cheaper items while still maintaining the quality of its products (Beijing, 2018).

Additionally, UNIQLO is aware that the key to the success in international market is to market products according to local preferences and trends. For this reason, Uniqlo has R&D centers in its home country, in US and in Europe right now to meet the needs of each market and set itself apart. The R&D center in hometown mostly works with Asian countries like China, Japan, South Korea, and Southeast Asian countries. The center in US mostly works with North American countries with similar cultures, like the US and Canada. And the center in Paris mostly works with European markets (Beijing, 2018).

It highlights UNIQLO's capacity to modify its business plan to accommodate regional tastes, demonstrating adaptability and astute business methods.

## 4.4 Management experience

### 4.4.1 Autocratic Management:

The leadership style of UNIQLO is autocratic. This is the way of the company's founder and president, Tadashi Yanai prefers. This means that he leads the company with direct decision-making. The company does not allow franchise worldwide. All stores are company-owned. Although all the stores follow the headquarters' decision, under participative management, designers can create whatever they want, and store managers can decorate as they wish (Mirza et al, 2020).

### 4.4.2 Achievement Oriented Leadership

To guarantee that the employees are constantly giving their best efforts, the leaders at UNIQLO exhibit achievement-oriented leadership conduct. In addition to being observed to guarantee high-quality customer service, staff members must also get practice engaging with consumers. Additionally, UNIQLO used transactional leadership behavior by rewarding personnel contingently. For instance, rewards will be given to those who reach company-identified targets and perform adequately. Bonuses and other perks are typically given out as rewards (Mirza et al, 2020).

### 4.4.3 Application of Organizational Cultural to All Stores Worldwide

People who work at any UNIQLO store are affected by the company's culture. This is especially true for the sales team, who are good at helping customers and working as a team. For example, UNIQLO workers always smile at and greet customers with a friendly hello. They also help customers while they shop (Mirza et al, 2020).

### 4.4.4 Financial strength

According to 2022 fiscal year financials, Uniqlo faced revenue decrease whereas their profits showed sharped increase (Martinroll, 2021).

Based on 2022 fiscal year balance sheet, the total assets of the Company increased by ¥673.7 billion (C$ 6.1704 billion) while total liabilities increased by ¥220.6 billion (C$2.0205 billion), mainly as a result of a rise in accounts payable and commerce. There was a rise of almost ¥450 billion (C$4.1495 billion) in total equity, with ¥220.3 billion (C$2.017 billion) going toward retained earnings and ¥222.2 billion (C$2.035 billion) toward other equity components accounting for a significant percentage of the increase (Fast Retailing-Year End Report- 2023). The ROE increased by 4.0 points to 20.4%. The company states its intention to maintain ROE between 15% and 20%, indicating a focus on balancing profitability and financial leverage. The increase in equity, driven by retained earnings and other components, suggests improved financial stability and the ability to reinvest in the business. The ROE improvement to 20.4% indicates effective use of equity capital to generate returns for shareholders (Fast Retailing-Year End Report- 2023).

The financial strategy prioritizes getting the greatest amount of cash flow from business activities, which shows how important it is to make enough cash through core operational activities. Cash and cash equivalents held by Fast Retailing added up to ¥1.3582 trillion (C$12.4397 billion) at the end of August 2022. The company thinks this number is good; it's equal to four to five months of its short-term sales goal of 3 trillion yen (C$ 27.4657 billion) per year (Fast Retailing-Year End Report- 2023). As part of the financial plan, cash will be used wisely to make aggressive investments in growth. This makes it seem like the company isn't just concerned with keeping its cash on hand; it's also using the money it has to support plans to grow.

For the entire year ending August 31, 2023, Fast Retailing reported a more than 20 % improvement in group revenue, reaching ¥2.76trn (C$ 25.2733 billion). Operating profit increased from ¥297.3bn (C$2.723bn) in 2022 to ¥381bn (C$3.489bn), a 28.2% annual increase (Mills, 2023).

# Credit Memo

**Date:** November 22nd, 2023

**To:** The Credit Committee, MUFG Bank, Japan

**From:** Commercial Financial Analyst

**Loan/Transaction Details**

* Loan Amount: ¥2.728 billion (C$ 25 million).
* Purpose: Uniqlo Co., Ltd.’s expansion to Türkiye. (Note, Uniqlo is a subsidiary of Fast Retailing Co., Ltd.)
* Terms:
* Interest Rate: Negotiated at 5% per annum for a two-year term.
* Interest for 2 years: ¥272.88 million (C$2,500,000).
* Other Associated Costs: Estimated at ¥109.14 million (C$1,000,000) for legal fees, administrative costs, etc.
* Projected Revenue:
* of ¥3.25 billion ($30 million CAD) in the first year and ¥4.37 billion ($40 million CAD) in the second year.
* Profit Margins:
* Uniqlo's profit margins in key regions are favourable, with Southeast Asia, Australia, and India at 19%, North America and Europe at 10%, and an estimated 15% for Türkiye.
* Return on Investment (ROI):
* Uniqlo expects a gradual increase in profits, targeting breakeven by the end of the first year and a return on investment in the second year.

**Financial Information**

* Financial Statements Summary: The financial statements reveal a robust and well-managed financial position, positioning the company for sustained growth and profitability. (Refer to Appendices A-D)
* Both consolidated and non-consolidated financials depict a positive growth trajectory, with revenue, profit, and equity consistently increasing.
* Cash flow from operating activities improved, indicating efficient financial management.
* Earnings per share (EPS) and equity ratios demonstrate strong financial performance and shareholder value.
* Stock performance and total shareholder return suggest investor confidence.
* Employee growth reflects organizational expansion and stability.
* Ratios:
* Uniqlo’s **debt-to-equity ratio** currently seats at 23.9% which is equivalent to 0.24 (Appendix A). The company has efficiently used debt to its advantage in the last 5 years and its leverage ratio has been constantly reducing, indicating consistent payback.
* The parent company, Fast Retailing Co.’s balance sheet shows a **current ratio** of 2.49 (comparing 2.178 trillion-yen (C$19.9 billion) current Asset to 876 billion yen (C$8.02 billion) in the TTM, per Appendix C). Excluding stock of 485.928 billion yen (C$4.45 billion), Fast Retailing Co., holds a **quick ratio** of 1.93.
* Uniqlo has an EBIDTA of ¥477.6 billion (C$ 4.37 billion) and Interest Expense of ¥371.49 billion (C$3.4 billion) (Appendix A), yielding a low **EBIDTA/ Interest Expense ratio** of 1.29.
* Uniqlo’s **free cashflow** as of 2022 is ¥218.59 billion (C$2.002billion) (Appendix A). The parent company has a Free Cash Flow of ¥311.36 billion (C$2.85 billion) (Appendix D).

**Credit Analysis:**

* **Risk Assessment**:

Uniqlo's risk assessment is favourable, considering its financial stability and performance. The debt-to-equity ratio shows a consistent and reasonable level of leverage over the years (ranging from 63.1% to 23.9%). The Return on Equity (ROE) has improved to 20.4% in 2022, indicating effective use of equity capital for returns. Uniqlo's profitability and potential to generate positive cash flow from operating activities also contribute to a positive assessment.

* **Credit History and Payment Behaviour**:

Uniqlo's credit history indicates a reliable payment behaviour (per Appendix A). The company has maintained profitability, and its ability to generate net cash from operating activities has been consistently positive. The credit history suggests a disciplined approach to financial management.

* **Financial Health**:

Uniqlo's financial health is robust. The equity attributable to owners has shown steady growth, reaching ¥206.7billion (C$ 1.893 billion) in 2022. Total assets have also increased, indicating a growing and well-managed business. The equity ratio, which represents the proportion of assets financed by equity, has improved signifying enhanced financial stability.

* **Profitability Metrics**:

Uniqlo's profitability metrics, such as profit margins and ROE, demonstrate a healthy financial performance. Despite a challenging year in 2020, the company rebounded with an operating profit of ¥297.325 billion (C$2.72 billion) in 2022. Profit margins vary across regions, with Southeast Asia, Australia, and India showing higher margins compared to North America and Europe.

* **Cash Flow Management:**

The net cash generated by operating activities has been consistently positive, providing liquidity for the company. The cash and cash equivalents at the end of August 2022 amounted to ¥1.3582 trillion (C$12.437 billion), indicating a strong position to meet short-term obligations. More so, the company consistently has a positive free cashflow that marked at ¥218.59 billion in 2022.

* **Collateral**:

Uniqlo's financial strength and positive cash flow alleviate the need for significant collateral, especially considering its intention to maintain a balance between profitability and financial leverage. More so, the credit period is short-term, and it is backed by a bigger and similarly financially stable parent company.

*Uniqlo presents a low credit risk based on the analysis of its financial health, profitability, and cash flow management. The company's consistent growth, prudent financial strategies, and positive payment behaviour in addition to an effective management contribute to a favourable credit outlook. Uniqlo's overall financial strength mitigates credit risk concerns*.

**Conditions and Covenants:**

Conditions:

* Uniqlo must provide timely and accurate financial statements, including balance sheets, income statements, and cash flow statements, on a quarterly and annual basis.
* The funds obtained through the loan should be used exclusively for the expansion project as outlined in the proposal. Any deviation from the approved use requires prior written consent from the bank.
* Uniqlo must maintain adequate insurance coverage for the financed assets and operations, with the bank named as a loss payee. This includes coverage for any potential political or operational risks in the regions where the expansion is taking place.

Covenants:

* Uniqlo agrees to maintain key financial ratios within acceptable ranges, including current ratio, debt-to-equity ratio, and interest coverage ratio. Deviations may trigger a review and consultation with the bank.
* Uniqlo is obligated to promptly inform the bank of any adverse events, including litigation, regulatory investigations, or significant changes in market conditions that could affect the company's financial stability.
* Uniqlo may be subject to restrictions on incurring additional debt during the term of the loan without the bank's prior approval. This ensures that the company maintains a manageable level of financial leverage.
* Uniqlo agrees to retain key executives critical to the success of the expansion project for the duration of the loan term. The departure of key personnel without replacement may trigger a review by the bank.

**Approvals and Signatures:**

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Financial Analyst Credit Risk Manager

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Chief Financial Officer Chief Risk Officer

*Note*: *All conditions necessary to the accrual of this loan including adequate documentation, acceptable financial ratios, insurance coverage, legal and regulatory compliance, collateral confirmation, and verification of financial statements, have been satisfied*.

**Additional Notes or Comments:**

Uniqlo is one of Fast Retailing Co., Ltd.’s 128 subsidiaries. The parent company provides a backing for Uniqlo. More so, Uniqlo has shown to be one of the major profit contributing subsidiaries of the company. Uniqlo shows a good financial and operational management resulting in optimal financial health. Furthermore, the Debt duration is short. Based on the company’s strengths and favorable market conditions, this is a prudent and promising investment opportunity for our bank. Uniqlo Co., Ltd and Fast Retailing Co. Ltd pose unique and lucrative commercial customers for the bank to maintain in the long term.

# The Bank’s Decision

The bank will take the deal. Reasons being:

1. Uniqlo's financials demonstrate strong revenue growth, increasing operating profit, high liquidity ratios, good leverage management and repayment, and a healthy equity position. The company's consistent generation of positive cash flow and its sound financial strategy indicate a good level of financial stability.
2. Uniqlo's return on equity (ROE) has improved to 20.4%, and the company aims to maintain ROE between 15% and 20%. This suggests effective use of equity capital to generate returns, aligning with the bank's interest in lending to financially robust businesses.
3. Uniqlo's substantial cash and cash equivalents, totaling ¥1.3582 trillion (C$12.437 billion), and its intention to use cash wisely for aggressive investments indicate a strong liquidity position, reducing the perceived risk for the bank.
4. Being one of the biggest banks in Japan, MUFG Bank has a relatively healthy risk appetite. The investment possess a low risk and is considered strategically viable, hence a good business investment for the bank.

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# Appendices

## Appendix A – Uniqlo’s Financial summary (Fast Retailing Co., Ltd., 2023)

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## Appendix B - Fast Retailing Co., Ltd.’s Income Statement (YahooFinance, 2023)

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## Appendix C - Fast Retailing Co., Ltd.’s Balance Sheet Statement (YahooFinance, 2023)

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## Appendix D - Fast Retailing Co., Ltd.’s Cashflow Statement (YahooFinance, 2023)

A screenshot of a cash flow

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