

## Our Operating Markets

### Markets in which the UNITED ARROWS Group operates

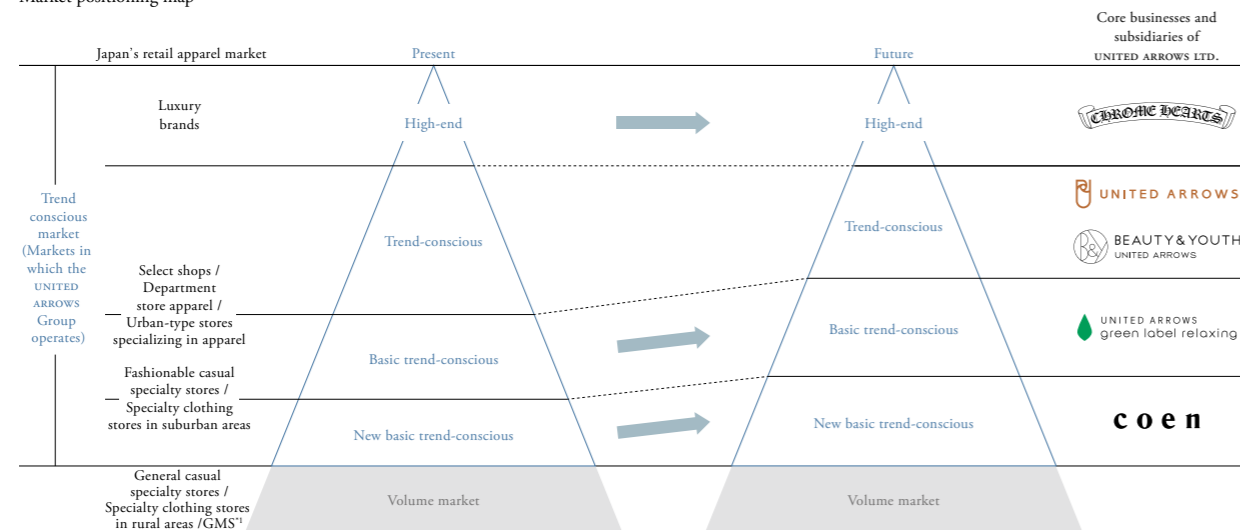
The UNITED ARROWS Group classifies the apparel market into two broad categories: the volume market, which mainly consists of relatively low-priced daily clothing, and the trend-conscious market, which is for consumers who are highly sensitive to fashion trends. The main thrust of the Group's business activities is directed toward the latter trend-conscious market. As such, our customer base is made up of consumers who have a strong interest in and want to enrich their lives through fashion. Specific operating activities are driven by an awareness of this customer segment.

It is said that the basic trend-conscious and new basic trend-conscious segments within the trend-conscious market have

expanded as the consumer societies in Europe and United States have matured and the trend toward digitization has gained momentum. In the future, Japan's market is also expected to mature and increasingly mirror the market structures of Europe and United States as a result of various factors including changes in consumer values. As far as UNITED ARROWS LTD. is concerned, the Company will promote a medium-term strategy that is geared toward addressing these market structural changes as outlined in its Medium-Term Vision announced in May 2017.

→ P12 The UNITED ARROWS Group's Medium-Term Vision

### Market positioning map



<sup>1</sup> GMS: General Merchandise Store

### Changes in the Company's customers

In addition to the market in which the Company operates, UNITED ARROWS LTD. has also witnessed a significant change in its customers over recent years. These changes have impacted the assumptions made when putting in place the Medium-Term Vision.

#### 1. Changes in the value customers place on clothing

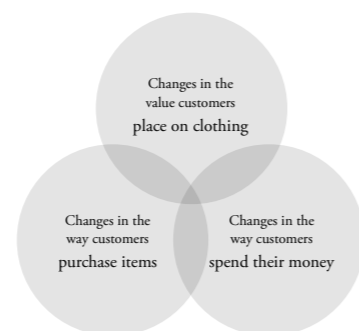
The marked polarization of consumption that is impacting a variety of fields is spilling over into the apparel market. There are signs that the value individual customers place on an item is growing increasingly diverse with a clear and astute distinction being made between favored and necessity goods.

#### 2. Changes in the way customers purchase items

Online activities are also progressing at a rapid pace in the apparel industry. With a strong emphasis on convenience, customers are increasingly able to lay their hands on a desired item, in a shorter amount of time, thanks largely to innovative technologies and a growing distribution network. Meanwhile, the effective use of e-commerce channels is also helping to reaffirm the added-value of physical stores.

#### 3. Changes in the way customers spend their money

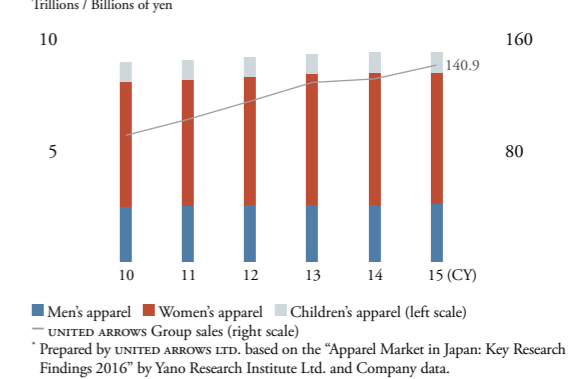
The amount of money previously spent on clothes has declined in recent years as customers' purchasing patterns have expanded to include an increasingly diverse range of items and services. For its part, the UNITED ARROWS Group will enter into fields that extend beyond apparel in a bid to address the expectations of customers who hold the Company in high esteem.



### Scale of Japan's retail apparel market and trends in the UNITED ARROWS Group's sales

The scale of Japan's retail apparel market is roughly ¥9–10 trillion per year. While the market enjoyed four consecutive years of growth from 2011 to 2014, trends declined ever so slightly in 2015. In addition to the slump in winter items due mainly to the mild winter, this downturn in clothing expenditure for the first time in three years as indicated in a survey by Japan's Ministry of Internal Affairs and Communications was also evident in data regarding restrained consumer spending.

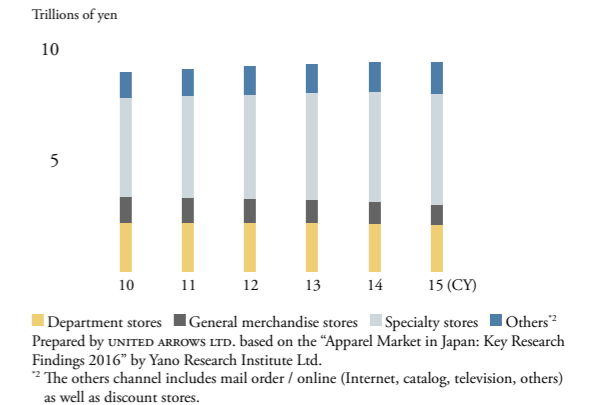
### Trends in the scale of Japan's retail apparel market and UNITED ARROWS Group sales



### Trends in sales by sales channel in Japan's retail apparel market

The scale of the specialty store as well as the online store and other<sup>2</sup> segment markets continues to expand. While we are seeing specialty store success and failure depending on the company, in overall terms this segment remains robust thanks largely to the outstanding ability to balance product and price. Trends in online and other stores are also strong. This mainly reflects the initiatives of each company's online activities as well as changes in the way consumers purchase goods.

### Trends in sales by sales channel



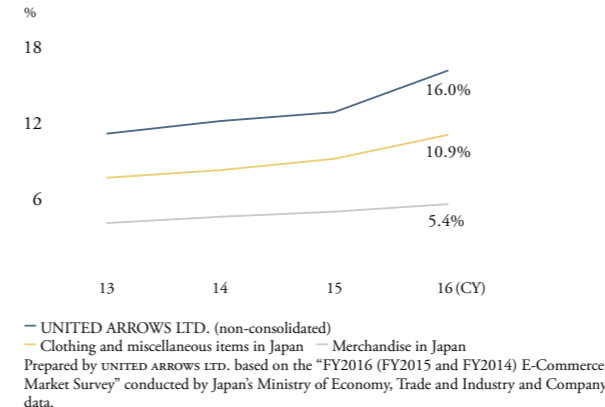
### Trends in e-commerce sales in Japan (merchandise, clothing, fashion goods)

According to a survey by Japan's Ministry of Economy, Trade and Industry, the scale of the e-commerce market as a portion of total merchandise sales in Japan came to ¥8 trillion in 2016 and accounted for 5.4% of total sales. This was 10.6% higher than the previous year. Of this total, clothing and miscellaneous items amounted to ¥1.5 trillion, up 10.5% year on year, and comprised 10.9% of total e-commerce sales. Based on these figures,

merchandise overall as well as clothing and miscellaneous items both continue to expand. Looking at a breakdown of e-commerce activities within the merchandise category as a whole, clothing and miscellaneous items make up the largest share at 19%, which reflects the high interest by consumers.

<sup>1</sup> Details of Japan's apparel market as well as clothing and miscellaneous items are based on data provided by Yano Research Institute Ltd. and Japan's Ministry of Economy, Trade and Industry, respectively. Hence, the discrepancy in market scale.

### Trends in the Composition of E-Commerce Sales for Merchandise, Clothing, and Miscellaneous Items in Japan as well as for the Company overall



### Composition Rate by Category within Japan's Merchandise E-Commerce Market

