

Interview with the President



I would like to take this opportunity to extend my sincere appreciation to all shareholders for their continued support and understanding.

In the fiscal year ended March 31, 2017, the UNITED ARROWS Group reported an increase in revenue and a decrease in earnings. Despite this downturn in earnings, we have become increasingly confident that the measures implemented during the fiscal year under review, including efforts to expand online sales and the opening of the new flagship store of UNITED ARROWS at ROPPONGI HILLS, will help us achieve our goal of next-generation growth. In the fiscal year ending March 31, 2018, we have put in place the UNITED ARROWS Group's Medium-Term Vision, which covers the three-year period from the fiscal year ending March 31, 2018 to the fiscal year ending March 31, 2020, taking into consideration changes in our business environment. Amid substantial changes in customer sentiment and the market, we will work to quickly improve profitability and establish a robust management platform that is capable of generating renewed growth.

Q Please provide us with an overview of the fiscal year ended March 31, 2017.

In the fiscal year under review, there were signs that new product and sales measures were helping to improve our performance. Despite these positive trends, we recognize that the internal improvements made were insufficient to fully address inclement weather conditions as well as changes in consumer spending patterns.

As far as our business performance is concerned, trends in online sales were robust. This was mainly due to the success of measures implemented including efforts to expand inventory and to integrate online and offline members to a new House Card program. While results in the UNITED ARROWS green label relaxing (GLR) and BEAUTY&YOUTH (BY) businesses were strong, in line with the shift to casual office wear and growing demand for functional clothing, the UNITED ARROWS (UA) and COEN CO., LTD. businesses struggled.

Accounting for these and other factors, the UNITED ARROWS Group reported an increase in revenue and a decrease in earnings. In specific terms, consolidated net sales amounted to ¥145.5 billion, up 3.3% compared with the previous fiscal year. Ordinary income, on the other hand, totaled ¥9.4 billion, a decrease of 15.7% year on year.

Store openings aimed at next-generation growth

In the fiscal year ended March 31, 2017, we opened stores that are designed to put forward new value proposals as a part of continuing evolution toward next-generation growth. Each of these stores are attracting wide acclaim from customers. Moving forward, we will look to further improve and fine-tune these newly opened stores and advance our brand image.



UNITED ARROWS ROPPONGI HILLS
Embodying its next-generation spirit that has attracted the patronage of loyal customers for over a quarter of a century since the Company's foundation, ROPPONGI HILLS store is the UNITED ARROWS' flagship store.



H BEAUTY&YOUTH
A new concept BY store that puts forward high-quality, high-end proposals while maintaining the taste of casual clothing.



WORK TRIP OUTFITS GREEN LABEL RELAXING
A new concept GLR store that puts forward proposals that incorporate design and functionality focusing on men's and women's business wear.

Q Can you provide us with background information and what went into putting in place the new Medium-Term Vision?

Currently, we are seeing changes in the way customers value and purchase clothing in the domestic market. At the same time, the basic trend-conscious and new basic trend-conscious markets in which GLR and COEN are positioned are expanding. While historically a uniquely Japanese fashion market, today there is a sense that styles and trends are much the same as those found in global fashion advanced countries. From an internal perspective, and taking into consideration changes in the portfolio attributable to the future transfer of the CHROME HEARTS business, we recognize the need to build a new portfolio prior to completion of business transfer. We fully understand that our current focus must revolve around addressing these changes both in our internal and external environments.

Despite these changes in its environment, UNITED ARROWS LTD. remains buoyed by a raft of unwavering strengths. First and foremost, we draw on our relationships of trust with customers that we have nurtured over many years to guide us along the right path. In order to move forward, we acknowledge the importance of increasingly harnessing this inherent underlying strength to respond to changes in the market and to reestablish a robust management platform geared toward renewed growth.

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Q Can you elaborate on the positioning of the new Medium-Term Vision and what you see as drivers of growth in the future?

We have positioned the three years of the new Medium-Term Vision as a period during which we will focus on establishing a robust management platform geared toward generating sustainable growth. Over the first half of this period, we will concentrate on reviewing underperforming businesses and brands as well as stores. From the second half, we will undertake investments with a view to renewed growth. This does not mean to say we are simply looking to streamline our operations. First, we will improve profitability, and then we will move on to new measures with a long-term perspective.

Looking ahead, we will work to expand sales in each of the basic trend-conscious and new basic trend-conscious markets. At the same time, we will grow online sales activities, which have a close affinity with each of these markets. We believe these two measures will help drive our business performance going forward. As an area of considerable strength in the past, UNITED ARROWS LTD. will continue to pursue quality over quantity in the trend-conscious market, and further enhance its brand power. Leveraging this brand power, we will expand operations in areas where we hold substantial competitive advantage in the basic trend-conscious and new basic trend-conscious markets. As far as our online sales activities are concerned, we will endeavor to raise the composition of online sales to total sales to between 25% and 30% by reinforcing our ability to deliver online services that come close to the levels provided at actual stores.

Q What major initiatives will you undertake in the fiscal year ending March 31, 2018?

We have identified “quickly improving profitability” as a key management goal in the fiscal year ending March 31, 2018. Despite our every effort, the speed at which we implemented measures over the past few years was insufficient to adequately address rapid changes in our external environment. Moreover, various other measures including steps to create new businesses placed continued downward pressure on profits from the fiscal year ended March 31, 2015. As a result, we are undertaking a review of the allocation of management resources while at the same time pursuing improvements in our profit structure.

In specific terms, we are working to improve the gross margin through a variety of initiatives. These initiatives include increasing the ratio of regular price sales and boosting business as well as ceremonial demand that is less susceptible to the weather. Furthermore, we are endeavoring to improve the efficiency of inventory by reducing the number of items and making positive adjustments to the timing and volume of each product launch. We are also conducting a drastic review of inefficient operations as well as unnecessary costs in a bid to improve the selling, general and administrative expenses to sales ratio. On top of these measures, we are expanding online sales activities by continuing to bolster the supply of inventory to online stores and are placing considerable emphasis on improving profitability. In the first year of the Medium-Term Vision, we will push forward each of these initiatives as a part of efforts to establish a robust management platform.

Q What is your approach toward addressing environmental, social, and governance (ESG) concerns?

Coexisting in harmony with society is critical to achieving long-term sustainable growth. As a part of its pledge to society and five core values, UNITED ARROWS LTD. has identified coexisting in harmony with society as a key element of its Policy Structure. Together with customers, the Company is currently striving to create value for society through its business activities. Among a host of measures, we are recycling down products and donating a portion of our product sales.

Moreover, we are placing considerable emphasis on the development of employees, who represent the source and driving force behind efforts to create customer value. In order to complement these efforts, we are also focusing on motivating employees and putting in place a workplace environment that they find rewarding. UNITED ARROWS LTD. is now in its 29th year

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of business. Over this period, we have witnessed various changes in employees' lifecycles. With this in mind, we recognize the hiring and development of human resources as an important management issue. From the fiscal year ended March 31, 2017, we have again vigorously focused on the Company's existing educator / student system as a part of efforts to promote the development of our human resources. At the same time, we are endeavoring to improve the quality of our customer service at frontline stores.

From a corporate governance perspective, and recognizing the importance of delegating the necessary authority to allow outside directors to properly monitor the Board of Directors and to ensure that decisions are made in a timely manner, UNITED ARROWS LTD. transitioned to a company structure with an Audit and Supervisory Committee from the previous fiscal year. After conducting an evaluation of the effectiveness of the Board of Directors in 2016, the Company recognized the need for proper and sufficient deliberation as an important issue. In the ensuing period, we have made every effort to review agenda items that go before the Board of Directors for resolution and implemented other measures to ensure that sufficient time is allocated for deliberation. Even in the formulation of the Medium-Term Vision, I am vigorously pressing outside directors for their opinions at each critical stage of deliberation. Based on the critical comments of outside directors, we have become newly aware of many issues and matters regarding what in the past was considered obvious. Currently, deliberations are conducted in an extremely active and lively manner. In addition, and in line with the move to a company structure with an Audit and Supervisory Committee, we established the Nomination and Compensation Committee. While ramping up efforts to ensure that value is properly shared between directors and shareholders, we spent many long hours discussing the need to put in place a compensation scheme that helps to increase corporate value over the medium to long term. Based on these discussions, UNITED ARROWS LTD. has adopted a restricted stock compensation plan effective from the fiscal year ending March 31, 2018.

Q Is there any message that you would like to convey to shareholders?

Rather than the pursuit of business scale, we intend to increase profitability and put in place a framework that shareholders will readily accept and feel confident about over the next three years. Our goals are to achieve an average annual ordinary income growth rate of 8% and an ordinary income margin of at least 7% in the fiscal year ending March 31, 2020. From the perspective of returning profits to shareholders, we are targeting ROE of 16% or more, a dividend payout ratio of 35% or more, and DOE of 5.5% or more. Through these means, we will work toward upgrading and expanding the return of profits to shareholders. UNITED ARROWS LTD. is committed to engaging in management that focuses equally on increasing profitability for the purpose of ensuring sustainable growth, undertaking growth investments, and paying stable dividends. In this manner, the Company places the utmost importance on balancing the need for growth with the return of profits to shareholders.

While operating results for the fiscal year ended March 31, 2017 fell below forecasts announced at the beginning of the period, UNITED ARROWS LTD. has set the annual dividend at ¥78 per share, unchanged from the previous fiscal year. This translates to a consolidated dividend payout ratio of 44.7% and DOE of 7.3%.

As we work toward achieving our goals, we welcome your expectation toward the Group's business strategies going forward and kindly request your continued support and understanding.

August 2017



Mitsuhiro Takeda
Representative Director, President and CEO

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