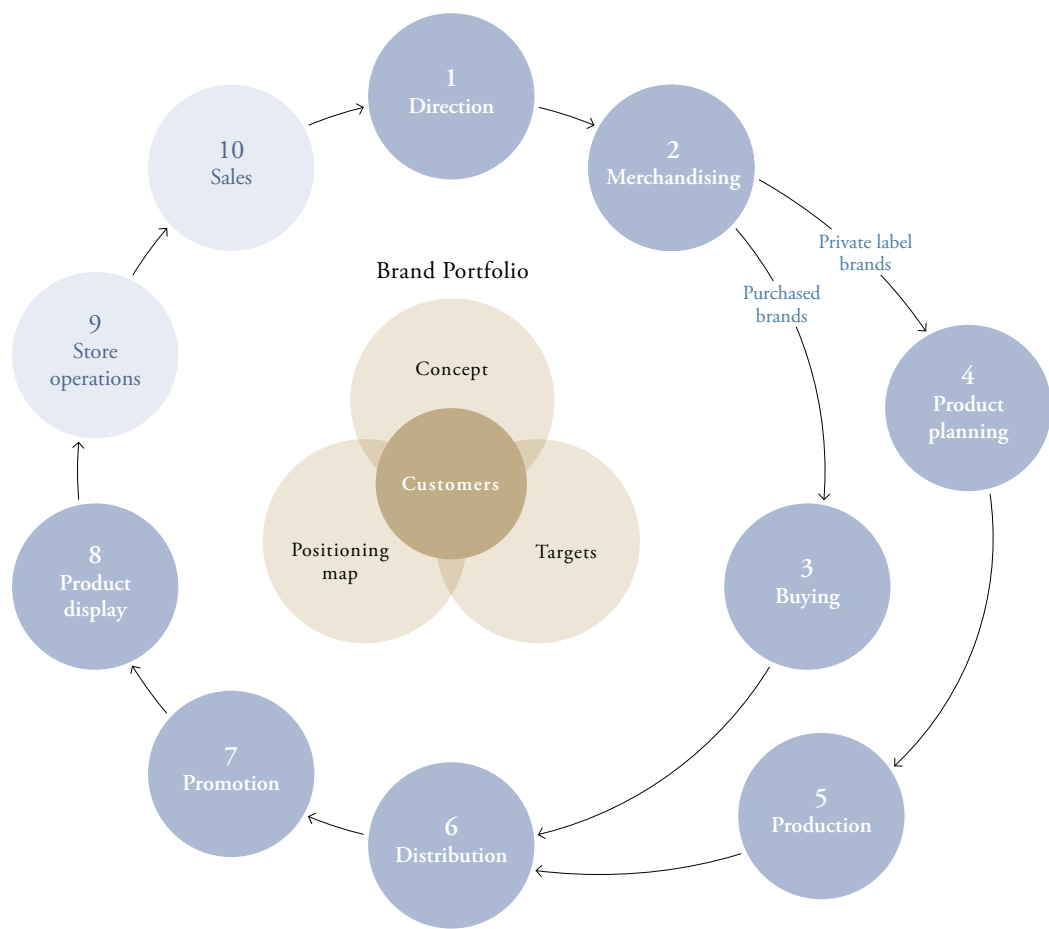


Value Chain and Product Platform

UNITED ARROWS LTD. positions its frontline activities at the heart of its operations. As a result, the comments and opinions gleaned directly from customers are reflected in every facet of the value chain. In specific terms, this includes the product development capabilities that draw on the Group’s strengths with respect to both purchased brands and private label brands, the product platform that oversees activities from the brand portfolio to the creation of product displays, and customer service and store environments that help provide customers with an enjoyable shopping experience. By implementing a variety of initiatives across the value chain, we are working to generate synergies that form the basis of the Company’s competitive advantage.



| | Until the fiscal year ended March 31, 2017 | From the fiscal year ended March 31, 2018 |
|-------------------|--|---|
| Brand positioning | Brand positioning and the identification of targets left to each business | Brand portfolio managed by the Company as a whole; positioning and targets for each brand clearly defined |
| Product platform | Management limited to product platform merchandising to production (2–5) as well as key performance indicators (KPIs)* | Management expanded to cover from the brand portfolio through advertising and promotion to product display (1–8) as well as KPIs* |

* Gross margin, sales ratio, residual inventory ratio, etc.

Value Chain

Brand Portfolio

UNITED ARROWS LTD. manages its brand portfolio based on a matrix that positions each brand according to its price as the vertical axis and fashion tastes as the horizontal axis in line with each brand concept. By clarifying positions that are capable of expressing the concept of each brand, we are defining each target customer base. On this basis, we will then provide products that match each need. Placing this brand portfolio at the center of the entire value chain, we are optimizing the whole process from product development to sales activities in line with target customers.

(1) Direction

Direction refers to the direction of each spring–summer and fall–winter season. Based on the Companywide direction that the Fashion Marketing Department disseminates as background to the latest fashion information (on colors, materials, collections, etc.) and social trends, each of the businesses sets a direction that fits each position and target group.

(2) Merchandising

Merchandising (MD) is planned based on the direction of each business. In order to respond to changes in the climate that have occurred in recent years and also to changes in fashion purchasing patterns, we classify a year into up to eight seasons and in stages introduced eight-season MD to conduct product planning from the spring–summer season of 2015. Replacing the product planning approach under which the year had previously been divided into six seasons, we divide the year into a maximum of eight seasons—early spring, spring, early summer, high summer, late summer, early fall, fall, and winter—and provide products corresponding to the temperature and customer trends of each segment-ed season. In addition, we aim to improve the ratio of regular priced sales and control increases in inventories by launching products after having evaluated the number of items and identified the necessary amount of inventory. Repeating weekly and monthly verifications and adjustments depending on the sales situation, we make finely tuned adjustments, such as additional production, the planning of new products during the course of the season, and early reductions of inventories utilizing outlets, to keep us on the right track.

(3) Buying

Buyers attend exhibitions and view fashion shows in Japan and overseas. This is done while undertaking detailed purchasing negotiations about the item, volumes, purchase price, and delivery. In addition to developing exclusive items with popular brands, buyers are involved right up to the completion of private brand products and supply differentiated products from other companies. Besides strengthening the integrity of existing brands and being charged with the mission of uncovering promising new brands that differentiate the Company from other companies, buyers are racing around every day to gather information and cultivate new personal connections with their own eyes and feet.

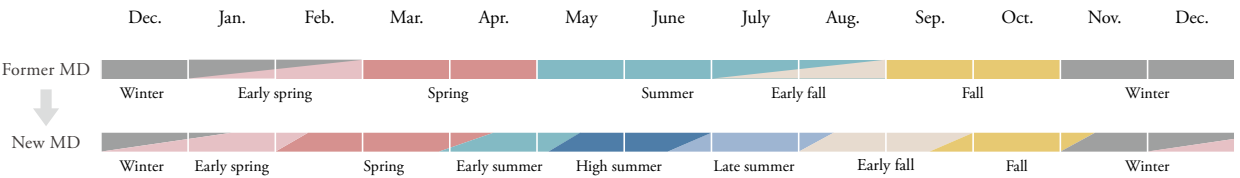
(4) Product planning

Under the concepts with respect to the direction and MD of each business, steps are taken to develop designs and fabrics and to prepare patterns. Product samples are shared with the sales department, and product development is pushed forward while incorporating feedback gleaned from staff in their dealings with customers at stores. Designers accompany buyers during their purchasing trips to better determine global fashion trends. Complemented by the mutual exchange of information, particular weight is placed on harnessing the merits of the business model that entails the combined development of purchased brands and private label brands. This serves as the wellspring for differentiating the Company’s products.

(5) Production

UNITED ARROWS LTD. formulates production strategies that encompass the selection of contract factories as well as the procurement of materials. This is in accordance with the specifications of each product, together with cost control initiatives. After placing an order, the Company collaborates closely with contract factories; controls delivery, quality, and costs; and oversees the entire process through to product completion. In addition to harnessing customer feedback to further enhance production planning, regular meetings are held with contract factories to improve the quality of finished products. As part of our initiatives for securing workers’ safety, prior to selecting factories, we take steps to confirm that they are not in violation of child labor, compulsory labor, or other laws and that they offer fair working environments in terms of considerations such as compensation and working hours.

Merchandise segmentation



Former MD: The six seasons of early spring, spring, summer, early fall, fall, and winter
New MD: The eight seasons of early spring, spring, early summer, high summer, late summer, early fall, fall, and winter
→ Breakdown into segments in line with customers’ feelings toward each season; clarify products and volumes in tune with each segment

(6) Distribution

In collaboration with distribution companies, the Group undertakes product inventory control on a concentrated basis at two large-scale distribution centers in Japan. In May 2018, we commenced operation at the Nagareyama Distribution Center. By equipping this facility with large-scale distribution equipment and RFID readers and realizing low-staff operations, we will seek to reduce distribution costs while realizing greater stability in distribution activities at this center. In addition, distribution operations pertaining to the Company-operated UA ONLINE STORE will be conducted in-house from fall 2019 to seamlessly integrate physical stores and online sales.

(7) Promotion

Promotion departments implement MD-based sales promotion activities. The departments draft and advance sales promotion strategies that combine sales promotion channels such as catalogs and magazine advertisements with web-based SNS, according to the target customer’s hobbies and preferences.

(8) Product display

In the case of actual stores, we are creating stores according to their locations and the characteristics of their customers. We attract customers to products by means of MD calendar-based window displays, product displays, and the installation of point of purchase (POP) displays tied to sales promotion strategies.

(9) Store operations to (10) Sales

In actual stores, we aim to respond to the needs of each and every customer and aim for customer service in such a way as to provide satisfaction and excitement that exceeds expectations. Through training programs, such as the Educator-Student (ES) system and the UNITED ARROWS University, to encourage independent development of sales staff, and award systems, such as Sales Master and the UNITED ARROWS Grand Prix for outstanding sales staff, we are maintaining and improving the knowledge, skills, and motivation of our sales staff. In online stores, we operate our own UA ONLINE STORE and are also setting up stores on e-commerce sites such as ZOZOTOWN. On the UA ONLINE STORE, we are promoting efforts to raise cooperation between physical and online stores by unifying membership with the UA House Card system and sharing common point services. UNITED ARROWS LTD. OUTLET plays the role of continuously reducing the residual inventories and slow-selling products during a season at each business. The early reduction of inventories at outlet stores helps maintain the fresh appeal of products at frontline stores while also securing gross profit and the improvement of cash flow through the conversion of cash.

Seasonal Reviews

After the end of each spring–summer and fall–winter season, the Company conducts reviews of MD and product planning. We verify, for example, whether the MD was appropriate, whether the distribution of products to actual stores was optimal, and whether any products had been slightly off the targeted customer base, and reflect our review findings in the following season’s MD.

Product Platform

It is the product platform that plays a major role in the Company’s value chain. A framework that comprises an MD platform and a production platform, which supports each of the procurement, production, product launch, and inventory reduction activities, the product platform was introduced in the fiscal year ended March 31, 2007. This overarching framework is used to stabilize MD operations by standardizing and structuring activities that are susceptible to the experience and skills of employees.

The MD platform provides the mechanism for determining the current status of merchandise flows and the basis for making decisions. Utilizing the progress management tables and indices consistent across all businesses, UNITED ARROWS LTD. has established a swift and easy-to-implement decision-making process that allows the Company to promote the additional production of top-selling items while reducing production and inventories of slow-selling items, thereby leading to increased rates of inventory reduction as well as final sales.

The production platform works to formulate the product procurement and production strategies that take us from MD planning through to realization. Having gathered information on a Companywide basis on the procurement of materials and manufacturing plants by business, the Company selects the optimal manufacturing plant according to the characteristics of the business and product. This has given rise to positive adjustments in procurement costs relating to purchasing and production as well as lead times in a way that satisfies the five key criteria.

Product Platform Transition

Since its introduction in the fiscal year ended March 31, 2007, the Company has brought about the phased evolution of its product platform. During the space of the first four years, the platform was installed at each business. With the MD platform, we had made advances in the monitoring and analysis of KPIs, such as gross margin, sales ratio, residual inventory ratio, and in the visualization and standardization of business processes. In the case of the production platform, we promoted the sharing of factory information for each business, the selection and evaluation of principal business partners, and the strengthening of cooperation. Over the following five years, we strengthened efforts toward stable operations, enhancing the monitoring and analysis of KPIs to increase the accuracy of budget performance management of the MD platform, and strengthening the production control frameworks of major factories and promoting positive adjustments to delivery dates, quality, and costs with the production platform. In the fiscal years ended March 31, 2016 and 2017, we implemented initiatives in response to changes related to customers.

On the MD platform, we are aiming to improve the regular sales ratio, connected to timely and appropriate volumes from our product lineups according to each season by introducing eight-season MD with regard to changes in climate and fashion purchasing patterns. Turning to the production platform, we are promoting optimum location and optimum production in line with the segmented MD seasons and are working to develop production scenarios compatible with finely tuned product launches.

Current Product Platform Operation

Customer needs are growing more diverse in conjunction with changes in social trends. With the aim of conducting the accurate supply of products in response to these changes, we began evolving our product platform into a framework that encompasses the entire value chain, including brand concepts and targets, in the fiscal year ended March 31, 2018.

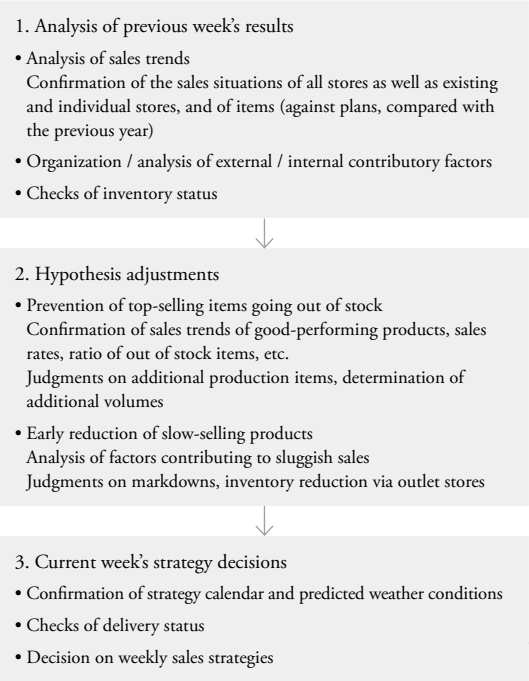
On the MD platform, we have added attribute codes, indicating for example the taste of feminine fashion or standard or casual fashion, to the product code, which is classified by elements such as brand, color, and size. Attaching the attribute codes has enabled us to reach the point at which we can manage to what extent products with specific attribute codes are deployed in a given business by using indices. By combining data on sales trends by attribute code and other quantitative data with qualitative data pertaining to

social and fashion trends, we aim to formulate highly accurate MD plans that effectively balance logic with feeling. At the time, we are standardizing workflow process on a weekly and monthly basis to operate our MD platform in manner that is not overly influenced by business characteristics.

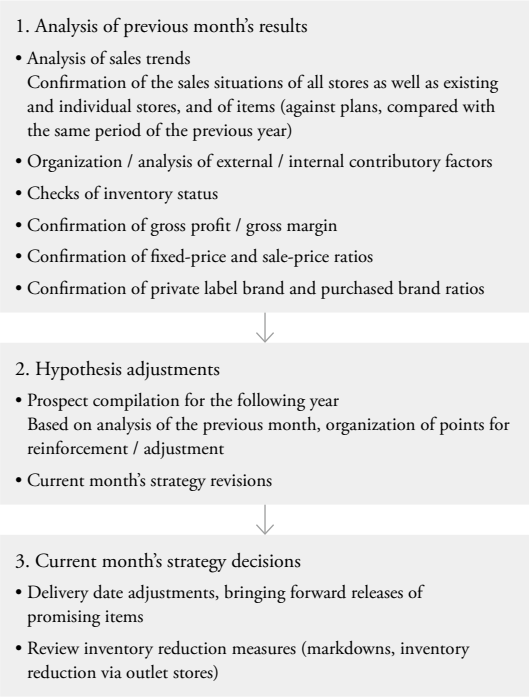
Turning again to the production platform, we will select production scenarios that can respond to the concepts and targets of each business accurately at an early stage in order to support the MD plan. From now on, we will utilize the functions of our business atelier* to enhance the quality of our private label brands and lead us to product optimization for targeted customers.

* Atelier: A studio for creating in-house product samples. Creates high-precision samples in a short time and enhances the quality finish and quality of products by using the samples when placing production orders with factories. Currently being used for some mainstay products.

Weekly business process flow



Monthly business process flow



Product platform initiatives in transition

| | Fiscal 2007–Fiscal 2010 | Fiscal 2011–Fiscal 2015 | Fiscal 2016–Fiscal 2017 | Fiscal 2018– |
|---------------------|---|--|---|---|
| Initiatives | Initiatives intended to be introduced across all businesses | Initiatives toward stable operations | Initiatives toward customer variations | Evolve into a framework to totally control the entire value chain |
| MD platform | Visualization of MD operations / Promotion of standardization | Strengthening of budget performance management | MD segmentation | In line with the concept, position, and targets based on the business portfolio, operate the MD platform for the season, month, and week (combining qualitative and quantitative aspects, improving hypothesis accuracy). |
| Production platform | Take stock of production control business processes / Promote standardization | Delivery / quality / cost management | Promote optimum location, optimum production strategy | Based on the above, selection of early stage, accurate production scenarios |