

## The UNITED ARROWS Group's Medium-Term Vision

In May 2017, the UNITED ARROWS Group put in place a new Medium-Term Vision that will carry through to the fiscal year ending March 31, 2020.

Recognizing that the market will also undergo a substantial change as a result of shifts in the value customers place on clothing as well as the manner in which purchases are conducted together with the ongoing development of the Group's future portfolio following the transfer of the CHROME HEARTS business, the vision lays out a roadmap for establishing a robust management platform and for working toward renewed growth.

### Strengths and the Ideal Direction Ahead

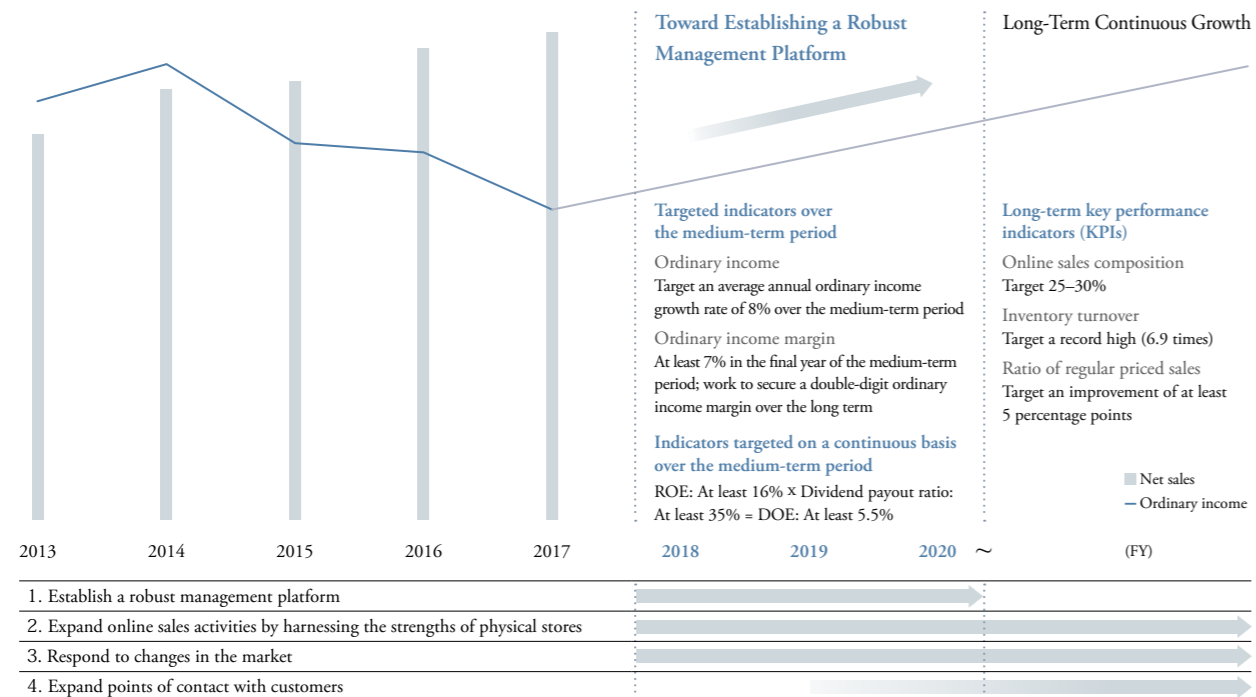
One of the Group's leading strengths is the relationships of trust with customers it has nurtured over many years. Moving forward, the UNITED ARROWS Group will carry out four strategies in a bid to achieve its principal aspiration (Company Policy) by increasingly taking advantage of its strengths.

### Four Strategies under the Medium-Term Vision

Harnessing the Company's strengths, UNITED ARROWS LTD. will implement services that have been created in advance of customer changes while anticipating shifts in market trends.

- 1 Establish a robust management platform
- 2 Expand online sales activities by harnessing the strengths of physical stores
- 3 Respond to changes in the market
- 4 Expand points of contact with customers

### Operating Results Trends and Positioning of the Medium-Term Vision



### Approach to the Return of Profits to Shareholders over the Period of the Medium-Term Vision

#### Balanced approach toward growth and the return of profits to shareholders

UNITED ARROWS LTD. will undertake operating investments geared toward sustainable growth utilizing the scope of cash flows from operating activities. In determining the implementation of operating investments, the Company will verify such key issues as recoverability within the set fiscal year after taking into consideration internally fixed capital costs (approximately 8%).

At the same time, we will practice management that emphasizes capital efficiency while working to balance the needs for growth and the return of profits to shareholders by providing stable dividends.

#### Trends in the dividend payout ratio, ROE, and DOE

(FY)	13	14	15	16	17	18	19
Dividend payout ratio	23.0%	26.9%	39.1%	36.3%	44.7%	42.1%	35.4%
ROE	32.7%	27.8%	20.2%	20.0%	16.1%	16.3%	18.0%
DOE	6.6%	6.8%	7.7%	7.0%	7.3%	6.6%	6.0%

### Overview of Four Strategies of the Medium-Term Vision and Summary of Vision's Second Year

#### 1 Establish a robust management platform

##### Overview of Strategy

Decreases in profit were seen for three consecutive years beginning with the fiscal year ended March 31, 2015, and ending with the fiscal year ended March 31, 2017. In response to this situation, the Medium-Term Vision launched in the fiscal year ended March 31, 2018, defined "establish a robust management platform" as its first strategy, based on which we sought to raise the awareness of our human resources; identify and evaluate underperforming businesses, stores, and activities and carry out appropriate countermeasures; and ensure a sound earnings structure.

##### Summary of Initiatives in the Second Year of the Medium-Term Vision

The UNITED ARROWS Group withdrew from two underperforming businesses (Another Edition and Boisson Chocolat) in the fiscal year under

review. In addition, we took step to identify the stores that should be closed in order to improve store productivity. A total of 51 stores were closed while 49 new stores were opened over the first two years of the Medium-Term Vision. As a result of these efforts, sales at existing retail stores rose for two consecutive years. We then turned our attention to projects for raising the awareness of our human resources, which culminated in the revision of our corporate culture and our human resource evaluation systems in April 2019. In addition, two executive directors were appointed to drive future enhancements to the Company's management framework. These initiatives helped expedite the progress in efforts to respond to changes in the market, another strategy of the Medium-Term Vision, while contributing to improvements of 0.7 percentage point in the operating margin and 0.6 percentage point in the ordinary income margin in comparison to the fiscal year ended March 31, 2017, prior to the start of the vision.

Key Measures		Overview of the Second Year of the Medium-Term Vision
FY2018	FY2019	
Withdrawal from two underperforming businesses		<ul style="list-style-type: none"> <li>Withdrawal from two underperforming businesses</li> </ul>
Store openings and closures to establish a robust management platform (20 store openings, 33 store closures)	Same as on the left (opened 29 stores and closed 18 stores)	<ul style="list-style-type: none"> <li>Two-year total of 49 store openings and 51 store closures → Two consecutive years of increases in sales of existing retail stores</li> </ul>
Launch of projects for reforming our corporate culture and human resources	Advancement of projects for reforming our corporate culture and human resources	<ul style="list-style-type: none"> <li>Revision of corporate philosophy (April 2019-)</li> <li>Revision of human resource evaluation systems (April 2019-)</li> <li>Reorganization of business divisions (Response to market changes)</li> <li>Improvements of 0.7 percentage point in operating margin and 0.6 percentage point in ordinary income margin (FY2019 vs FY2017)</li> </ul>
	Appointment of two executive directors to drive future management framework enhancements	

#### 2 Expand online sales activities by harnessing the strengths of physical stores

##### Overview of Strategy

Smooth growth in e-commerce (online) sales as well as the portion of total sales that they represent has continued since even before the start of the Medium-Term Vision. The growth of e-commerce sales is a product of the sense of confidence and integrity cultivated at physical stores. Going forward, we will continue to ground our efforts on this sense of confidence and integrity to pursue customer satisfaction through both physical and online channels.

##### Summary of Initiatives in the Second Year of the Medium-Term Vision

In the fiscal year ended March 31, 2018, the UA ONLINE STORE was integrated with brand sites, online inventories were expanded, and preparations were made for the change in the operating system of the UA ONLINE STORE. The fiscal year under review saw the reorganization of distribution functions to accommodate the new system for the UA ONLINE STORE. In addition, photography studios were set up in the head office and in distribution centers to improve the quality of product photographs and to allow items to be listed on websites quicker. Furthermore, an integration

between physical stores and online stores was undertaken with regard to House Card services prior to the start of the Medium-Term Vision. These initiatives have contributed to four consecutive years of double-digit growth in the sales of existing online stores. Sales at physical stores were also brisk. The ability to achieve increases in stores at both physical and online stores represents a significant strength of the Company. Preparations for the change to the operating system for the UA ONLINE STORE scheduled for fall 2019 are progressing steadily. At the same time, we have been preparing to introduce radio frequency identification (RFID) systems<sup>1</sup> in the UA and BY businesses as well as in small business units since the fiscal year ended March 31, 2018, and the introduction of these systems in major Group businesses is scheduled to be completed within the fiscal year ending March 31, 2020. These systems are anticipated to contribute to further improvements in productivity.

<sup>1</sup> Systems that identify products when tags with embedded integrated circuit (IC) chips are scanned by a reading device

Key Measures		Overview of the Second Year of the Medium-Term Vision
FY2018	FY2019	
Integration of the UA ONLINE STORE with brand sites	Reorganization of distribution functions	<ul style="list-style-type: none"> <li>Four consecutive years of double-digit growth in existing online store sales</li> </ul>
Expansion of online inventories	Establishment of photography studios in the head office and distribution centers	<ul style="list-style-type: none"> <li>Brisk growth in existing physical store sales → Two consecutive years of growth in existing retail store sales</li> </ul>
RFID system introduction preparation <sup>2</sup>	Same as on the left	<ul style="list-style-type: none"> <li>Start of RFID introduction in UA, BY, etc. (spring/summer 2019-)</li> </ul>
Preparation for change to the operating system for the UA ONLINE STORE	Same as on the left	<ul style="list-style-type: none"> <li>Announcement of change to the operating system for the UA ONLINE STORE (February 2019)</li> </ul>

<sup>2</sup> Introduced at GLR in 2014 and COEN in 2016

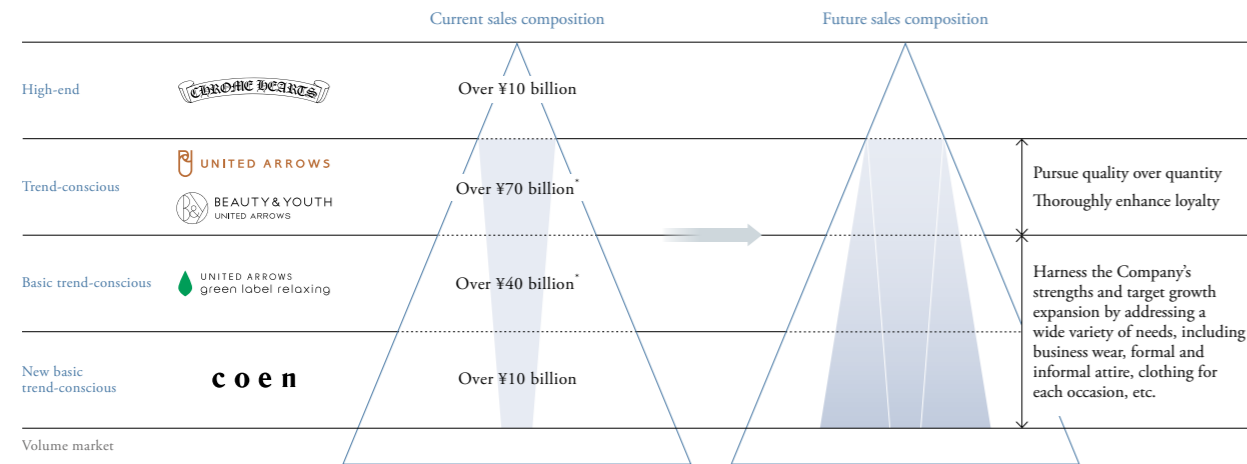
### 3 Respond to changes in the market

#### Overview of Strategy

The operating environment for the UNITED ARROWS Group has been undergoing substantial change in recent years (see "Our Operating Markets" on page 22 for details). In business targeting the trend-conscious

market, we intend to pursue quality over quantity and aim to thoroughly enhance loyalty. Business serving the basic trend-conscious market and the new basic trend-conscious market will broaden the scopes of their operations in light of the projected expansion of customer needs.

Sales composition by target market over the long term



\* Including sales of store brands other than the notation

#### Summary of Initiatives in the Second Year of the Medium-Term Vision

UNITED ARROWS LTD. began preparing to undergo a reorganization to better match organizations to the market in the fiscal year ended March 31, 2018, and this reorganization was executed in the fiscal year ended March 31, 2019. In Business Unit I, which targets the trend-conscious market, we began developing general merchandise stores featuring both UA and BY products to respond to customer needs arising from the recent trend toward blurring the line between business and casual attire. Business Unit II, a unit geared toward the basic trend-conscious market, moved forward with the development and opening of stores specializing in business needs spun off from GLR and stores

dedicated to women's items that can be set up even in very narrow locations. At the same time, certain small business units were rebranded. We also continued to capitalize on the demand created in each market by the increased participation of women in the workforce. These initiatives were preceded by the revision of our value chain and product platform in the fiscal year ended March 31, 2018. This revision had the benefit of improving the precision of merchandising measures by clarifying the positioning and targets of each store brand. Meanwhile, consolidated subsidiary COEN CO., LTD., kicked off reforms to its profit structure in the second half of the fiscal year ended March 31, 2017, enabling this company to achieve a quick escape from its performance slump.

Key Measures		Overview of the Second Year of the Medium-Term Vision
FY2018	FY2019	
Preparation for market-based reorganization at UNITED ARROWS LTD.	Execution of market-based reorganization at UNITED ARROWS LTD.	• Steady sales growth in all markets
Revision of value chain and product platform	Development of general merchandise stores featuring both UA and BY products to respond to customer needs in the trend-conscious market	→ YoY growth in businesses targeting the trend-conscious market +6.6% in FY2018; +6.4% in FY2019
	Opening of stores specializing in business needs and women's items in the basic trend-conscious market	→ YoY growth in businesses targeting the basic trend-conscious market +6.4% in FY2018; +7.2% in FY2019
	Rebranding of small business units	
Profit structure reforms at COEN CO., LTD.	Ongoing profit structure reforms and enhanced sales promotions for raising recognition at COEN CO., LTD.	→ YoY growth in businesses targeting the new basic trend-conscious market +11% in FY2018; +14% in FY2019

\* To reflect the reorganization, year-on-year comparisons use figures from the UA business for FY2018, and Business Unit I for FY2019, to represent businesses targeting the trend-conscious market and figures for the GLR business for FY2018, and Business Unit II for FY2019, to represent businesses targeting the basic trend-conscious market.

### 4 Expand points of contact with customers

#### Overview of Strategy

Customers have recently been diverting money previously used for clothing to various other goods and experiences. We have been responding to this trend by working to expand our points of contact with customers over the medium to long term. Specific efforts to this end have included expanding our domain to encompass fields other than clothing, increasing the amount of time spent with customers through reuse and other initiatives, and expanding overseas activities.

#### Summary of Initiatives in the Second Year of the Medium-Term Vision

As part of our efforts to expand overseas activities, we commenced test marketing measures in Taiwan in the trend-conscious, basic trend-conscious, and new basic trend-conscious markets. Also in this country, the foundations were laid for future openings of GLR and COEN stores in Taiwan through e-commerce initiatives and limited-time store openings. Initiatives for expanding our domain will be a topic of ongoing discussion and examination under the next medium-term vision.

	Key Measures	Overview of the Second Year of the Medium-Term Vision
FY2018	FY2019	
—	Commencement of test marketing measures in Taiwan for the basic trend-conscious and new basic trend-conscious markets	• Start of e-commerce initiatives, opening of limited-time stores, and laying of foundations for future openings of GLR and COEN stores in Taiwan

#### Progress toward Quantitative Targets—Performance exceeding targets with regard to all indicators

Numerical Targets	FY2018	FY2019
Ordinary income Average annual growth rate of 8%	+14.4%	+9.6% (average of two fiscal years)
Ordinary income margin of 7% or above (in the final year of the Medium-Term Vision)	7.0%	7.1%
ROE of 16% or above	16.3%	18.0%
Dividend payout ratio of 35% or above	42.1%	35.4%
DOE of 5.5% or above	6.6%	6.0%