

## Special Feature: Online Sales Initiatives

In recent years, trends in online sales in the retail industry have evolved in a manner that continues to amaze. This is mainly due to growth in the online market and the increasingly widespread use of smartphones. Customers today obtain product information using e-commerce sites in advance. Physical stores then serve as a location to confirm size as well as styling and to complete purchase including payment. As this trend gathers momentum, e-commerce sites are expanding beyond their traditional role of purchase settlement by fulfilling the more significant function of a medium through which to attract and direct customers to physical stores.

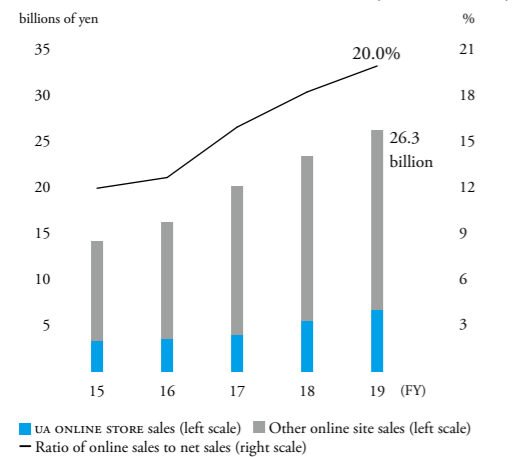
Amid the growing number of customers who strategically utilize physical and online stores according to their specific needs, UNITED ARROWS LTD. has continued to position online sales as an important component within its medium- and long-term strategy in order to seamlessly link both channels.

### Trends in Online Sales in the Fiscal Year Ended March 31, 2019

In the fiscal year ended March 31, 2019, online sales came to ¥26.3 billion on a non-consolidated basis. This was 12.0% higher than the level recorded in the previous fiscal year. The ratio of online sales to net sales climbed to 20.0%, up 1.7 percentage points compared with the previous fiscal year. Compared to existing retail stores, which saw sales rise only 1.6% year on year, the 21.7% growth in sales of existing online stores was substantial, and these strong online sales drove the expansion of Companywide sales.

UNITED ARROWS LTD. seeks to continue growing its online sales through the expansion of online inventories and the establishment of in-house studios to increase the quality of product images.

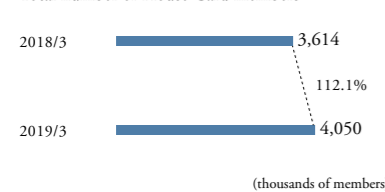
Online store initiatives and trends in online sales (non-consolidated)



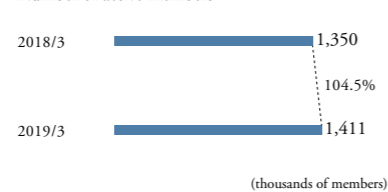
#### 1. Expansion of online inventories

UNITED ARROWS LTD. employs a basic inventory scheme in which products are allocated to distribution centers for each of its e-commerce sites, and products are shipped from distribution centers based on the site through which an order was placed. However, the rapid expansion of online sales has led to shortages in inventories at these warehouses, creating a situation in which we were frequently unable to meet customers needs. The Company is working to address this situation by greatly increasing the amount of products allocated to warehouses for major e-commerce sites in order to prevent losses of sales opportunities. In addition, we have linked our distribution center inventory information for almost all outside e-commerce sites that offer our products. As a result, an item that is in stock at one of

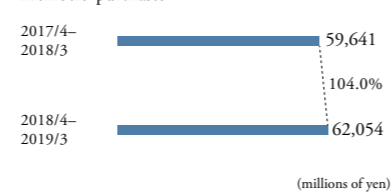
Total number of House Card members



Number of active members\*



Members' purchases



\* Members with a purchase history within the past year

our distribution centers can be sold to customers even when it is out of stock at a particular e-commerce site. In addition, we post photographs of certain products on e-commerce sites without providing inventories. Items are then delivered after an order has been received. These efforts are contributing to more efficient inventory management.

#### 2. Improvement of product image quality through establishment of in-house studios

UNITED ARROWS LTD. takes product photographs for use on e-commerce sites itself so that styling, model, and other decisions can be made to ensure that products are introduced in a manner that is congruent with the Company's original intent. To facilitate these efforts, we have been establishing in-house studios to make it possible for brand directors and other staff responsible for products to directly confirm styling choices and image quality. We anticipate that the production of appealing product photographs that accurately communicate the image of their brand will contribute to increases in online sales while also encouraging customers to visit physical stores.

### UA ONLINE STORE Initiatives

The UA ONLINE STORE was opened in September 2009. This store posted impressive year-on-year growth of 22.8% in the fiscal year ended March 31, 2019, and accounted for 25.5% of all online sales, 2.2 percentage points higher than in the previous fiscal year. This brisk growth in sales is the result of various efforts to increase coordination with physical stores.

#### 1. Integrate House Card and e-commerce members while consolidating the point service program

Previously run on a separate basis, the Company integrated its House Card member system with UA ONLINE STORE members in August 2016. Under this initiative, House Card members can use their existing ID to make purchases on the UA ONLINE STORE. At the same time, steps have also been taken to consolidate the point service programs of physical stores and the UA ONLINE STORE. With each purchase of ¥100 representing one point and one point equivalent to ¥1, customers can accrue points at both physical stores and the UA ONLINE STORE that can be applied to the future purchase at either venue. Similarly, customers' history of purchases through physical stores and the UA ONLINE STORE have been integrated to allow for the receipt of various services based on point acquisition and purchase amounts, a feature that is no doubt appealing to customers who use both physical and e-commerce venues.

#### 2. Integration and renewal of the Company's UA ONLINE STORE and brand sites

As the number of customers who undertake purchases through a combination of physical and online stores increases, we are seeing the emergence of more and more media commerce sites that bring together in a single package media from which to obtain a variety of information and online sales stores that provide customers with an enjoyable shopping experience. As far as UNITED ARROWS LTD. is concerned, the Company integrated its brand site, which posts information primarily about its physical stores, with the UA ONLINE STORE in April 2017. This renewal entailed the opening of a completely new site. With a single point of entry to the site, we have seen the numbers of sessions (visitors) and transactions (purchases) significantly increase.

### Change in Development and Operating System for UA ONLINE STORE

UNITED ARROWS LTD. is targeting a fall 2019 launch for its reinvented development and operating system for the UA ONLINE STORE. In creating the new system, we partnered with prominent IT companies to receive aid in developing systems and in sculpting fulfillment procedures, ranging from order processing to product shipment. Also, products ordered through the new system will be dispatched from the Nagareyama Distribution Center. By dispatching products from a Company-owned facility, we hope to upgrade various function and services through the seamless linking of online and offline shopping experiences in order to initiate a phased approach toward realizing the level of service quality available at physical stores for online sales.

#### 1. Provision of services that seamlessly link online and offline shopping experiences

By realizing the seamless integration of physical stores and online sales, we will make it possible for customers to freely choose their purchase location and the timing and method for receiving purchased items. Measures to this end will include expanding the range of products applicable for online reservation of trial fitting and allowing items to be delivered to customers' homes, convenience stores, and unmanned lockers in train stations and commercial facilities.

#### 2. Provision of value experiences close to offline shopping experiences

UNITED ARROWS LTD. aims to provide services that are similar to those found at physical stores through means such as allowing for more clothing items to be shipped with alterations and offering gift wrapping services. In addition, we will improve packaging quality and take other steps to deliver value experiences that are close to offline shopping experiences.

#### 3. Improvement of customer services

The previously outsourced customer support system used for the UA ONLINE STORE has been integrated into the Company's Customer Service Center. Meanwhile, we intend to develop a one-stop customer support system that seamlessly links online and offline shopping experiences and pursue further improvements in service quality.

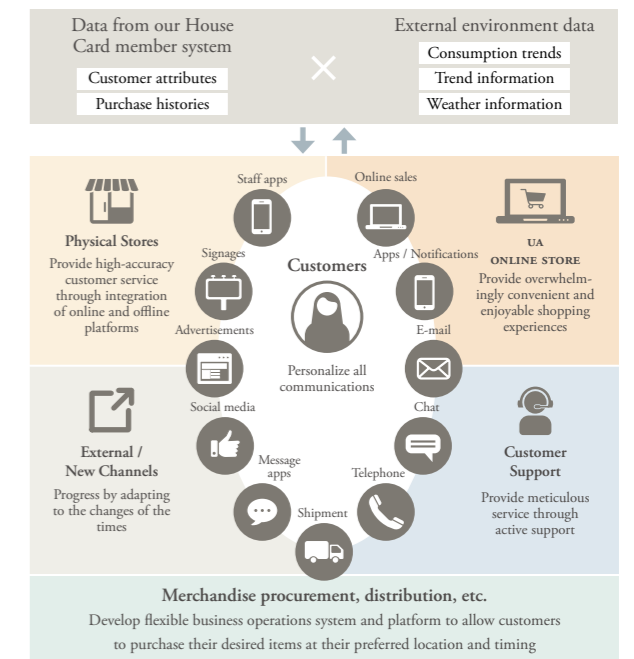
#### 4. Reduction of operating costs

Under the new scheme, certain expenses, such as system usage fees, will be converted into fixed costs. In addition, the utilization of a Company-operated distribution center and the switch to in-house operation for customer support systems will allow for lower-cost operations. Moreover, the ratio of costs will be reduced through growth in sales, contributing to medium- to long-term improvements in profitability.

### Vision for Future Sales Model

One of the four strategies of the Medium-Term Vision is to expand online sales activities by harnessing the strengths of physical stores. As part of the implementation of this strategy, UNITED ARROWS LTD. has formulated a vision for its future sales model entailing the provision of services that have been optimized to individual customers with a high degree of accuracy in a manner that seamlessly links various channels. This will be accomplished by effectively utilizing external data, including that pertaining to consumption and other trends and to the weather, as well as the information on customer attributes and purchase histories gained through our House Card member system. In terms of merchandise procurement, distribution, and other infrastructure, we will develop a flexible business operations system and a platform for supporting this system to allow customers to purchase their desired items at their preferred location and timing. By linking this infrastructure to various services that enhance the value experience for customers and to improved convenience, UNITED ARROWS LTD. will aspire to become a lifestyle navigator that, focused on fashion, resolves the issues faced by customers and forges stronger ties of trust with them.

Vision for Future Sales Model



### Positioning of UA ONLINE STORE and External Online Shopping Malls

Customers using the UA ONLINE STORE are thought to be highly loyal fans of the Company's brand that use physical stores and the UA ONLINE STORE in accordance with their needs. Conversely, customers of ZOZOTOWN, Rakuten, Amazon, and other external online shopping malls are thought to be those seeking to compare various brands and those who have little experience shopping at our stores. We view external online shopping malls as important points of contact through which customers can form a connection with UNITED ARROWS LTD., and we therefore believe that such channels function as a gateway to ongoing use of the Company's products. For this reason, the Company will adopt an approach that promotes coexistence between these two online channels by enhancing the UA ONLINE STORE while continuing to work with external online shopping malls.