

## 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 have expanded as the consumer markets in Europe and the United States have matured and the trend toward

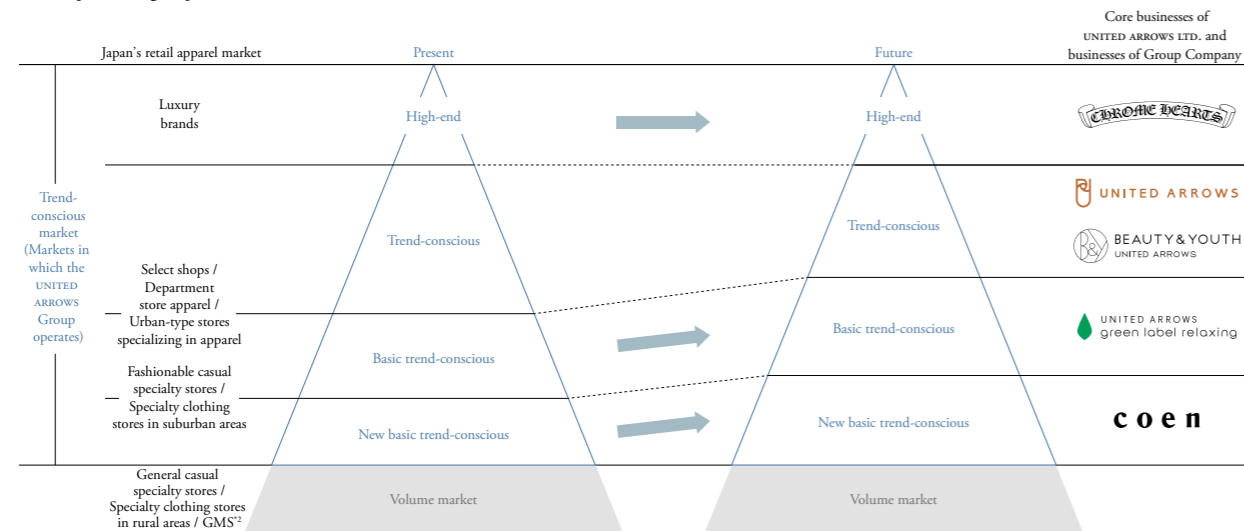
digitization has gained momentum. Japan's market may also follow this path in the future.

Under the Medium-Term Vision announced in May 2017, UNITED ARROWS LTD. is advancing medium-term strategies to address such trends. However, the diversification of workstyles and other trends are further transforming the market, resulting, for example, in sales in the trend-conscious market that exceed our forecasts.

Such changes will be considered as we formulate strategies for the next medium-term vision.

→ P14 The UNITED ARROWS Group's Medium-Term Vision

Market positioning map <sup>1)</sup>



<sup>1)</sup> The market positioning map reflects market forecasts at the time of the formulation of the Medium-Term Vision (2016–2017).

<sup>2)</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

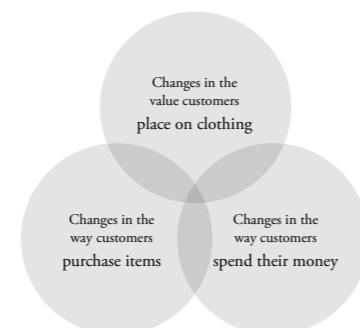
The marked polarization of consumption that is impacting a variety of fields is spilling over into the apparel market. There are signs that the value individual customers place on an item is growing increasingly diverse with a clear and astute distinction being made between favored and necessity goods.

#### 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.

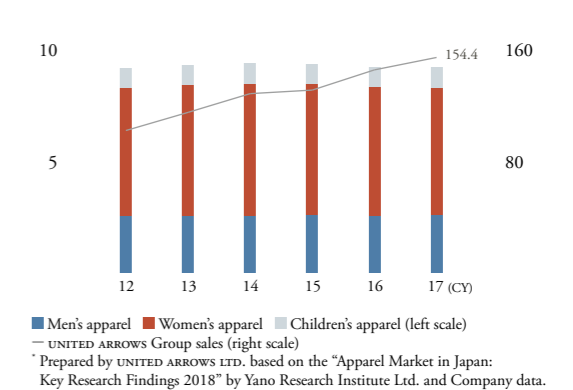


### Scale of Japan's Retail Apparel Market and Trends in the UNITED ARROWS Group's Sales

Recently, the scale of Japan's retail apparel market has remained at roughly ¥9.0 trillion per year. In 2017, the overall scale of Japan's retail apparel market was around ¥9.2 trillion, unchanged from the previous year. This year thus brought an end to the negative growth trend that had continued for two years prior. By product type, a small decline was seen in the market for women's apparel while a slight increase was witnessed in the men's apparel and children's and baby clothing markets.

Even amid the faltering apparel market, the UNITED ARROWS Group's sales have continued to show steady growth due to the benefits of new store openings, higher sales at existing stores, and increased online sales.

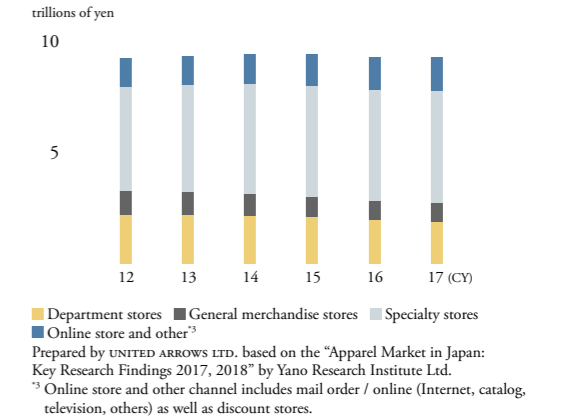
Trends in the scale of Japan's retail apparel market and the UNITED ARROWS Group's sales



### Trends in Sales by Channel in Japan's Retail Apparel Market

Looking at sales by channel in Japan's retail apparel market in 2017, sales at department stores and general merchandise stores were lower than in the previous year while ongoing growth was seen in sales at specialty stores and in the online store and other<sup>3)</sup> segment. In regard to specialty stores, impressive performance continued at those stores featuring lineups of affordable items with an ideal balance between product quality and price.

Trends in sales by sales channel



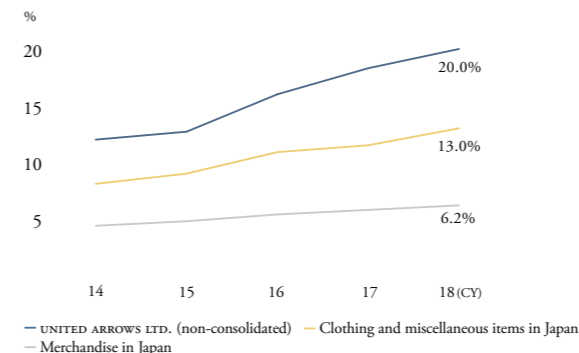
### Trends in E-Commerce Sales in Japan (Merchandise, Clothing, and Miscellaneous Items)

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 ¥9.2 trillion in 2018 and accounted for 6.2% of total sales. This was 8.1% higher than the previous year. Of this total, e-commerce sales of clothing and miscellaneous items amounted to ¥1.7 trillion, up 7.7% year on year, and comprised 13.0% of total sales of these items. As shown by these figures, e-commerce sales of merchandise overall as well as of clothing and miscellaneous items continue to expand and represent larger portions of total sales. Looking at a breakdown of e-commerce activities within the merchandise category as a whole, clothing and

miscellaneous items once again made up the largest share at 19%, continuing the trend seen in the previous two years and indicating high consumer interest. The growth of e-commerce activities in the merchandise category is primarily driven by women, and the merchandise category e-commerce market for women is estimated to be more than twice the size of the market for men. However, we believe that e-commerce purchases by men will grow over the medium to long term.

<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



Prepared by UNITED ARROWS LTD. based on the "FY2018 E-Commerce Market Survey" conducted by Japan's Ministry of Economy, Trade and Industry and Company data.

Composition rate by category within Japan's merchandise e-commerce market

