Fiscal 2020
Fiscal Year Ended March 31, 2020
Earnings Announcement

May 8, 2020

UNITED ARROWS LTD.

Contents

Note: In this earnings announcement, fractional sums of less than one million are rounded down and percentages are calculated from raw data.

Cautionary Statement

Earnings forecasts and other objective views contained in this document are based on decisions made by UNITED ARROWS LTD. in light of information obtainable as of the date of this report and, therefore, include risks and uncertainties. Actual earnings may differ materially from forecasts due to global economic trends, market conditions and other factors. Investors are asked to refrain from making investment decisions based solely on the information contained in this document.

(1) Abbreviations used throughout this report: The following abbreviations may be used for each Group business, store brand, and consolidated subsidiary.

UA = UNITED ARROWS; BY = BEAUTY&YOUTH UNITED ARROWS; monkey time = monkey time BEAUTY&YOUTH UNITED ARROWS; District = District UNITED ARROWS; GLR = UNITED ARROWS green label relaxing; WORK TRIP OUTFITS GLR = WORK TRIP OUTFITS GREEN LABEL RELAXING; Lurow GLR = Lurow GREEN LABEL RELAXING; THE AIRPORT STORE = THE AIRPORT STORE UNITED ARROWS LTD.; THE STATION STORE = THE STATION STORE UNITED ARROWS LTD.; CHJP = CHROME HEARTS JP, GK; CH = CHROME HEARTS

(2) The store brands contained within Business Unit I and Business Unit II are as follows.

Business Unit I: UA, District, THE SOVEREIGN HOUSE, ASTRAET, THE AIRPORT STORE, BLAMINK, BY, monkey time, STEVEN ALAN, ROKU, H BEAUTY&YOUTH, Odette e Odile, and DRAWER

Business Unit II: GLR, WORK TRIP OUTFITS GLR, Lurow GLR, EMMEL REFINES, THE STATION STORE

I. Overview of FY20 Business Results

■ FY20 Performance Summary

UNITED ARROWS LTD.

Consolidated P/L (for details see slides 5, 8, and 9)

- Both revenue and income decreased mainly due to sluggish consumption caused by the spread of novel coronavirus in 4Q
- Gross margin: YoY difference of down 0.6 percentage points to 50.8%. Promoted inventory clearance measures to make up for a decline in 4Q sales
- SGA Expenses: YoY increase of 0.7%. Controlled fixed costs, but incurred higher advertising expenses in connection with online sales expansion
- Extraordinary loss: A decline in 4Q sales caused the recognition of larger store-related impairment losses. Net income decreased 45.1% YoY
- Annual dividend is ¥83 per share (FY19 dividend plus ¥3), as initially planned

Non-Consolidated Sales (for details, see slides 6 and 7)

- YoY decrease of 1.7% in existing store sales (retail sales: down 7.6%; online store sales: up 16.8%)
- Retail sales decreased due to warm winter in 3Q and coronavirus in 4Q, but online store sales increased by double digits

Inventory (for details, see slide 10)

- Inventories: Up 11.8% YoY (sales: down 0.9% YoY). Increased due to a decline in 4Q store sales. Promoted inventory clearance sales

Opening and Closing of Stores (for details, see slides 12 to 13)

- Results of FY20-end Group total: Number of new stores opened: 27; number of stores closed: 26; number of stores as of FY20-end: 359

Group companies (for details, see slide 14; status of major consolidated subsidiaries is as outlined below)

- FIGO CO., LTD.: Decreases in both revenue and income; COEN CO., LTD.: Increase in revenue and decrease in income; CHROME HEARTS JP, GK: Increases in both revenue and income

Performance Forecasts, etc. for FY21

- FY21 forecasts related to consolidated performance, dividends, and opening and closing of stores are undetermined as it is currently difficult to calculate the effects of the spreading coronavirus on corporate activities.
  These forecasts will be announced immediately after they become available

■ Consolidated P/L Overview

UNITED ARROWS LTD.

Both revenue and income decreased mainly due to sluggish consumption caused by the spread of novel coronavirus* in 4Q
Ordinary income: Down 22.2% YoY; Net income: Down 45.1% YoY; Dividend: No change from the initial plans

- Sales: Down 0.9% YoY; down 2.4% compared with the revised plans. Revenue increased until 3Q, but decreased in 4Q
- Gross margin: YoY difference of down 0.6 percentage points to 50.8%. Promoted inventory clearance measures to make up for a decline in 4Q sales
- SGA Expenses: YoY increase of 0.7%. Controlled fixed costs, but incurred higher advertising expenses in connection with online sales expansion
- Extraordinary loss: A decline in 4Q sales caused the recognition of larger store-related impairment losses. Net income decreased 45.1% YoY
- Annual dividend is ¥83 per share (FY19 dividend plus ¥3), as initially planned Next year's dividend is not yet planned

*Hereinafter designated as "coronavirus"

(Millions of yen)

	Consolidated FY20 Full Fiscal Year									
	Results	vs. Sales	YoY increase (decrease)	%	Increase (decrease) from the revised plans	%	FY19 Results	vs. Sales	Revised plans	vs. Sales
Sales	**157,412**	100.0%	(1,506)	99.1%	(3,827)	97.6%	158,918	100.0%	161,240	100.0%
Gross Profit	**79,983**	50.8%	(1,777)	97.8%	-	-	81,760	51.4%	-	-
SGA Expenses	**71,224**	45.2%	527	100.7%	-	-	70,696	44.5%	-	-
Operating Income	**8,758**	5.6%	(2,305)	79.2%	(2,111)	80.6%	11,063	7.0%	10,870	6.7%
Non Op. P&L	**44**	0.0%	(203)	18.0%	-	-	248	0.2%	-	-
Ordinary Income	**8,803**	5.6%	(2,508)	77.8%	(2,096)	80.8%	11,312	7.1%	10,900	6.8%
Extraordinary P&L	**(2,582)**	-1.6%	(1,993)	-	-	-	(588)	-0.4%	-	-
Net Income Attributable to Owners of Parent	**3,522**	2.2%	(2,894)	54.9%	(1,777)	66.5%	6,417	4.0%	5,300	3.3%

■ Non-Consolidated Sales Results by Sales Channel

UNITED ARROWS LTD.

YoY decrease of 1.7% in existing store sales (retail sales: down 7.6%; online store sales: up 16.8%)

- Retail sales decreased due to warm winter in 3Q and coronavirus in 4Q, but online store sales increased by double digits
- % of total sales: online sales (22.6%); outlet store sales (14.1%)
- The number of customers of existing retail stores decreased YoY but that of online stores increased 18.4% YoY. The total number of these customers declined by 2.0% YoY

(Millions of yen)

	Non-Consolidated FY20 Full Fiscal Year					
	Results	Composition ratio	YoY increase (decrease)	%	FY19 Results	Composition ratio
Non-Consolidated Sales	129,402	100.0%	(2,074)	98.4%	131,476	100.0%
Total Business Unit Sales	111,162	85.9%	(1,617)	98.6%	112,779	85.8%
Retail	81,026	62.6%	(4,632)	94.6%	85,658	65.2%
Online	29,217	22.6%	2,881	110.9%	26,336	20.0%
Other (wholesale, etc.)	918	0.7%	134	117.1%	784	0.6%
Outlet, etc.	18,240	14.1%	(457)	97.6%	18,697	14.2%

Existing Stores YoY(asterisk indicates reference data)

	Sales	Number of customers	Ave. spend per customer
Retail + Online	98.3%	98.0% *	99.2% *
Retail	92.4%	90.6%	102.0%
Online	116.8%	118.4% *	98.7% *

*Data on number of customers and average spend per customer for existing retail and online stores as well as for other online stores are calculated using data available to the Company through its own online stores and ZOZOTOWN stores.

■ Non-Consolidated Sales by Business

Higher sales in both business units until 3Q, but sales for the full fiscal year declined due to lower sales in 4Q

- Categories showing a YoY increase in the total of retail and online sales at existing stores for the full fiscal year: UA women's dresses and miscellaneous goods, UA women's casual clothing and miscellaneous goods and GLR men's casual wear

(Millions of yen)

	Non-Consolidated FY20 Full Fiscal Year			
	Results	YoY increase (decrease)	%	FY19 Results
Total Business Unit Sales	**111,162**	(1,617)	98.6%	112,779
Business Unit I	**72,449**	(719)	99.0%	73,169
Business Unit II	**38,712**	(897)	97.7%	39,610

	Existing Store Sales YoY		
	Retail + Online	Retail	Online
Business Unit I	99.2%	93.4%	116.9%
Business Unit II	96.8%	90.6%	116.5%

Notes: Total Business Unit Sales for FY19 include sales of businesses which the Company subsequently ceased to operate.
Please refer to slide 2 for a list of the store brands included in each business unit.

FY20 consolidated gross margin: Down 0.6 percentage points YoY to 50.8%

Major factors that caused gross margin difference from FY19 (impact on the overall gross margin) are described below.

Gross margin for FY20	**50.8%**
Gross margin for FY19	**51.4%**
Difference	**-0.6pt**

Factors that impacted the consolidated gross margin and the levels of overall impact		Remarks
Impact of movements in the gross margin of UNITED ARROWS LTD. total business units	-0.8pt	Gross margin of the total business unit: Down 1.2 percentage points YoY Markdowns on inventory items increased due to a sales decline caused by a mild winter (3Q) and coronavirus (4Q).
Impact of movements in the gross margin of UNITED ARROWS LTD. Outlet and other stores	0.1pt	YoY increase of 1.2 percentage points in the gross margin of UNITED ARROWS LTD. Outlet and other stores Improvement in the gross margin of regular business products and other factors
Impact of movements in other costs at UNITED ARROWS LTD.	0.0pt	No significant overall impact since FY19 despite some changes in factors
Other factors (subsidiary trends, consolidated adjustments, sales composition, etc.)	0.0pt	Slightly positive overall impact due to improvements resulting from foreign exchange fluctuations despite negative impact of markdowns on fall and winter items

Note: Details of factors that impacted the consolidated gross margin on a 1H, 2H, and full-year basis in the past three fiscal years are included in the attachment at the end of this document.

Consolidated SGA Expenses

SGA expenses up 0.7% YoY; SGA expenses to sales ratio up 0.8 percentage points YoY to 45.2%

(Comments referring to individual expense items that increased or decreased significantly as a percentage of sales)

Advertising Expenses: Increases in expenses associated with online sales expansion, etc.

Personnel Expenses: Relative increase in the ratio of personnel expenses to sales due mainly to decrease in revenue from retail sales, decrease in payment of year-end bonuses for FY19 (¥350 million), etc.

Other: Decrease in variable expenses associated with lower revenue, and reduction of fixtures and supplies expenses and other fixed costs

(Millions of yen)

	Consolidated FY20						
	Results	vs. Sales	YoY increase (decrease)	%	Movement vs. Sales	FY19 Results	vs. Sales
Sales	**157,412**	100.0%	(1,506)	99.1%	0.0%	158,918	100.0%
SGA Expenses	**71,224**	45.2%	527	100.7%	0.8%	70,696	44.5%
Advertising Expenses	**4,263**	2.7%	719	120.3%	0.5%	3,543	2.2%
Personnel Expenses	**25,055**	15.9%	285	101.2%	0.3%	24,770	15.6%
Rent	**22,545**	14.3%	(61)	99.7%	0.1%	22,607	14.2%
Depreciation	**1,946**	1.2%	86	104.7%	0.1%	1,859	1.2%
Other	**17,413**	11.1%	(502)	97.2%	-0.2%	17,915	11.3%

Note: Details pertaining to consolidated SGA expenses to sales ratios by major expenditure item on a 1H, 2H, and full-year basis in the past three fiscal years are included in the attachment at the end of this document.

■ Consolidated B/S Overview

Consolidated total assets of ¥70,007 million on March 31, 2020, down 1.0% from March 31, 2019

- Current Assets: Increase in inventories; decrease in accounts receivable-other
- Noncurrent Assets: Increase in property, plant and equipment, and decrease due to depreciation
- Current Liabilities: Increase in short-term loans payable, and decreases in current portion of long-term loans payable, accounts payable-other, income taxes payable, and provision for bonuses
- Net Assets: Increases in retained earnings and non-controlling interests

* Balance of short- and long-term loans payable: ¥4,600 million, up 27.8% YoY

* Inventories: Up 11.8% YoY (net sales: down 0.9% YoY). Increased due to a decline in 4Q store sales. Promoted inventory clearance sales

(Millions of yen)

	Consolidated FY20-End				FY19-End	
	Results	Composition ratio	YoY increase (decrease)	%	Results	Composition ratio
Total Assets	70,007	100.0%	(731)	99.0%	70,738	100.0%
Current Assets	45,997	65.7%	1,464	103.3%	44,533	63.0%
(Inventory)	27,949	39.9%	2,960	111.8%	24,988	35.3%
Noncurrent Assets	24,009	34.3%	(2,195)	91.6%	26,205	37.0%
Current Liabilities	23,658	33.8%	(3,423)	87.4%	27,082	38.3%
Noncurrent Liabilities	4,275	6.1%	197	104.8%	4,078	5.8%
Total Net Assets	42,072	60.1%	2,494	106.3%	39,578	55.9%
Reference: Balance of short- and long-term loans payable	4,600	6.6%	1,000	127.8%	3,600	5.1%

Cash and cash equivalents as of the end of FY20: ¥5,726 million

- Cash flow from operating activities
  - (major cash inflows): Income before income taxes of ¥6,221 million, impairment loss of ¥2,509 million, and increase in notes and accounts receivable of ¥2,258 million
  - (major cash outflows): Payment of income taxes of ¥3,611 million and increase in inventories of ¥2,960 million
- Cash flow from investing activities
  - (major cash outflows): Purchases of property, plant and equipment of ¥1,966 million and intangible assets of ¥1,158 million
- Cash flow from financing activities
  - (major cash inflows): Increase in short-term loans payable of ¥2,500 million and proceeds of ¥991 million from the sale of equity interests to non-controlling shareholders
  - (major cash outflows): Repayment of long-term loans payable of ¥1,500 million and payment of cash dividends of ¥3,929 million

(Millions of yen)

	Consolidated FY20 Results	FY19 Results
Cash flows from operating activities (sub-total)	**9,139**	12,193
Cash flows from operating activities	**5,510**	9,140
Cash flows from investing activities	**(3,667)**	(5,926)
Cash flows from financing activities	**(1,938)**	(3,711)
Cash and cash equivalents at the end of the period	**5,726**	5,839

Group Total Opening and Closing of Stores in FY20

- Results of FY20-end Group total: Number of new stores opened: 27; number of stores closed: 26; number of stores as of FY20-end: 359

	No. of stores as of FY19-end	FY20 Results: Opened 1H	Opened 2H	Opened Full Fiscal Year	Closed	Changes due to absorption-type merger of company	No. of stores as of FY20-end	Reference: Increase (decrease) from the previous forecasts
Group Total	358	12	15	27	26		359	(1)
UNITED ARROWS LTD.	237	8	7	15	14	3	241	(1)
FIGO CO., LTD.	20		3	3	7		16	
COEN CO., LTD.	86	1	3	4	5		85	
UNITED ARROWS TAIWAN LTD.	4	1	2	3			7	
Designs & Co.	1	2		2		(3)	0	
CHROME HEARTS JP, GK	10						10	

Reference: Breakdown for UNITED ARROWS LTD.

	No. of stores as of FY19-end	Opened 1H	Opened 2H	Opened Full Fiscal Year	Closed	Changes due to absorption-type merger of company	No. of stores as of FY20-end	Increase (decrease) from the previous forecasts
Business Unit I	113	4	3	7	10	3	113	(1)
Business Unit II	98	4	3	7	4		101	
Outlet	26		1	1			27	

■ Reference: UNITED ARROWS LTD. Results of FY20 Opening and Closing of Retail Stores by Store Brand

UNITED ARROWS LTD.

	FY20 Full Year Results			
	No. of stores as of FY19-end	Opened	Closed	No. of stores as of FY20-end
UNITED ARROWS LTD. Total	**237**	**15**	**14**	**241**
Business Unit I Total	**113**	**7**	**10**	**113**
UNITED ARROWS (General Merchandise Store)	10	2	0	12
UNITED ARROWS	26	3	4	25
THE SOVEREIGN HOUSE	1	0	0	1
District	1	0	0	1
THE AIRPORT STORE	2	0	0	2
ASTRAET	1	0	0	1
BEAUTY&YOUTH	42	0	4	38
monkey time	3	0	0	3
STEVEN ALAN*	2	0	0	2
ROKU	3	0	0	3
H BEAUTY&YOUTH	1	0	0	1
Odette et Odile	14	0	1	13
DRAWER	7	1	0	8
BLAMINK		1	1	3
Business Unit II Total	**98**	**7**	**4**	**101**
green label relaxing	74	2	1	75
WORK TRIP OUTFITS GLR	4	3	2	5
Lurow GLR	6	2	0	8
EMMEL REFINES	9	0	1	8
THE STATION STORE	5	0	0	5
Outlet	26	1	0	27

* STEVEN ALAN TOKYO and STEVEN ALAN OSAKA are recorded as annexes to BY stores and are not included in the number of stores listed above.

Group Companies
(months in parentheses are consolidated periods)

UNITED ARROWS LTD.

FIGO Co., Ltd. (April–March)

Decrease in both revenue and income

- Sales of ¥2.4 billion, down 11% YoY
- Revenue decreased, reflecting a sales decline caused by store closures, lower wholesales, etc. Income decreased slightly despite improvement in gross margin, reduction of SGA expenses, etc.

COEN CO., LTD. (February–January)

Increase in revenue, but decrease in income

- Sales of ¥13.6 billion, up 1% YoY
- Revenue increased, but income decreased due to factors including expansion of markdown sales of fall and winter items as a result of the warm winter weather

CHROME HEARTS JP, GK (April–March) (*1)

Increases in both revenue and income

- Sales of ¥11.7 billion, up 3% YoY
- Both revenue and income increased due to strong sales of newly launched products, etc.

*1) * CHROME HEARTS JP, GK, settles its accounts on December 31. However, given the impact on business performance, results from the period of April 1 to March 31 of the following year are used for consolidated accounting.

UNITED ARROWS TAIWAN LTD. (February–January)

Results for FY20 were slightly below the initial targets due to factors including expansion of markdown sales as a result of the warm winter weather, etc.

*Designs & Co. was merged by absorption into UNITED ARROWS LTD. in February 2020.

■ Consolidated performance forecast, dividend forecast, and store opening and closing plan for FY21

The following are undetermined as it is currently difficult to reasonably calculate the effects of the spreading coronavirus on the UNITED ARROWS Group’s business activities.
They will be announced immediately after they become available.

- FY21 Consolidated Performance Forecast
- FY21 Dividend Forecast
- FY21 Store Opening and Closing Plan

Ⅱ. Review of Medium-Term Management Plan, New Medium-Term Management Plan, FY21 Group Management Policy, etc.

Review of Medium-Term Management Plan (FY18 to FY20)

Overview of Medium-Term Management Plan (FY18 to FY20)

1. Establish a robust management platform
   - Withdrew from underperforming businesses, shut down stores, closed subsidiaries, or merged subsidiaries through absorption
   - Revised and disseminated the Corporate Philosophy, and improved employee engagement by reviewing the personnel system
   - Work-style reform (started, on a trial basis, to implement staggered working hours, a system allowing the launch of a side business, and remote work arrangements)
2. Expand online sales activities by harnessing the strengths of physical stores
   - Consecutively achieved double-digit YoY growth in online store sales, with the composition ratio of 22.6% on a non-consolidated basis
   - Suspended the UA ONLINE STORE website due to the postponement of its in-house operation, and delayed the adoption of OMO strategies
   - Preparations are underway for the start of in-house operation during FY22
3. Respond to changes in the market

   Implemented organizational restructuring and measures tailored to each market
   - Trend-conscious MKT: Expanded UA general merchandise stores, and captured the women's market
   - Basic trend-conscious MKT: Opened small GLR stores, and rebranded the Small Business Unit
   - New basic trend-conscious MKT: Reformed the revenue structure
4. Expand points of contact with customers
   - Started to launch GLR and COEN in Taiwan (1 GLR store and 2 COEN stores at the end of FY20)
   - Established UNITED ARROWS SHANGHAI LTD., a Chinese corporation, in December 2019

Quantitative targets under the Medium-Term Management Plan (FY18 to FY20)

UNITED ARROWS LTD.

The Plan progressed smoothly until the second year, but the planned targets were not met in the final year due to poor performance

	FY18	FY19	FY20
Ordinary Income Average annual growth rate of 8%	**+14.4%**	**+9.6%** (average of two fiscal years)	**-2.2%** (average of three fiscal years)
Ordinary margin of 7% or above (final year target)	**7.0%**	**7.1%**	**5.6%**
ROE of 16% or above	**16.3%**	**18.0%**	**9.2%**
Dividend payout ratio of 35% or above	**42.1%**	**35.4%**	**66.9%**
DOE of 5.5% or above	**6.6%**	**6.0%**	**6.1%**

Main factors causing delays in UA ONLINE STORE website development, and future measures

1. Organizational factors

Factor	Measure
Project structure overemphasizing business demand	Establish a new organization focusing on IT skills (E-Commerce Development Office)
Ambiguous roles within the project	Review and clarify the roles of project leaders
Ambiguous positioning of the project	Sort out project priorities and approval procedures Review the progress management method depending on priorities

2. Process factors

Factor	Measure
Unrealistic scheduling and costs	Set up a realistic schedule and budget Ensure adequate time for consideration, and consider alternative measures and schedules
Problem related to the process of selecting a development service provider	Improve the assessment process followed for the selection of a development service provider
Poor project management	Strengthen the risk management and monitoring

3. Persons bearing responsibility

Mitsuhiro Takeda, Representative Director, President and CEO	20% reduction in monthly remuneration for three months
Tatsuya Kimura, Director and Executive Managing Officer	10% reduction in monthly remuneration for three months

New Medium-Term Management Plan (FY21 to FY23)

■ Preconditions: Issues in the fashion / apparel industry

UNITED ARROWS LTD.

Shrinking domestic apparel market along with its maturation

Market size: ¥15 trillion (1990) -> ¥9 trillion (2018)

The domestic market continues to shrink (e.g. leading apparel companies are shutting down their stores and discontinuing some of their brands, and department stores are struggling)

Declining apparel expenditures

Household expenditures for clothing and footwear: ¥17,000 (2000) -> ¥13,000 (2018)

Increasingly diversified preferences and shopping styles of customers will lead to the emergence of smaller-scale trends in a shorter cycle and the growth of the secondary retail market

Expansion of apparel e-commerce market

Ratio of e-commerce market scale: 5.8% (2013) -> 11.3% (2018)

Larger-sized e-commerce platform providers, and the rapid progress of smartphones and other technologies

Demand-supply balance amid mass production and excess supply

Assumed demand-supply ratio: 95% (1990) -> 48% (2018)

Solving the social responsibility and environmental issues, and increasing social roles

■ Ideal corporate vision accomplished in 10 years — Business portfolio

Corporate evolution to become a company providing all kinds of lifestyle-related products and services

Expansion of business domain

Lifestyle

Expansion of new domains related to food, lives, amusements, knowledge, and beauty

Apparel

New

Existing

Increase/grow market share of domestic apparel business

Global business development

Japan

Overseas

Expansion of development channels

■ Positioning of Corporate Philosophy, Sustainability, and Medium-Term Management Plan

UNITED ARROWS LTD.

Corporate philosophy

With sincerity and a sense of beauty, we continually create new tomorrows for our customers, setting the standard for lifestyle culture.

Sustainability

Aiming at setting the standard for lifestyle culture, we continually act positively to realize sustainable societies and environments through the creation of 5 values. We believe that by accumulating experience in this way, we can bring wealth to the world and make it a brighter place.

Medium-Term Management Plan (2020–2022)

Basic policy

Change and Challenge
Aim to achieve sustainable growth and value creation through innovative changes and challenges that enable us to become a company lasting 100 years

Business strategies

Strengthening of the platform for sustainable growth, and building customer loyalty
Increase the Group's revenue from existing businesses and simultaneously create the drivers of future growth

- Continue the stable growth of existing businesses
- Challenges of new business creation

Functional strategies

Create a structure suitable for the current era, and improve productivity
Innovative changes to optimize services and functions, and restructuring

Ideal corporate vision accomplished in 10 years

Corporate evolution to become a company providing all kinds of lifestyle-related products and services

Continue the stable growth of existing businesses

Aim to expand revenue by striving to further grow the apparel business in all three markets where the UNITED ARROWS Group conducts its business operations

Trend-conscious market

- Continued growth and expansion of online stores
- Expand the opening of SBU and women's clothing stores
- Improve profitability by closely examining unprofitable operations and taking necessary action

Basic trend-conscious market

- Continued growth and expansion of online stores
- Strengthen the GLR casual clothing business
- Closely examine unprofitable operations, take necessary action, and grow and expand SBU

New basic trend-conscious market

- Sales growth by increasing new store openings
- Enhance profitability by raising the ratio of fixed-price sales, improving the sales efficiency per tsubo (about 3.3 square meters), and assessing unprofitable stores

Challenges of new business creation

Domestic apparel business: New large-sized business development; Global business: Enter the Chinese market on a full-scale basis; Lifestyle business: Aim for long-term sustainable enhancement of corporate value by re-challenging ourselves to enter business areas other than the clothing business

Domestic apparel business	Start the development of new large-sized SPA* business combining men's and women's clothing in the basic trend-conscious market (aim to create the Group's 5th large-sized business, following UA, BY, GLR and COEN)
Global business	Enter the Chinese market on a full-scale basis as part of existing business operations
Lifestyle business	Re-challenge ourselves to enter business areas other than the clothing business aiming for long-term sustainable business growth and expansion, with issues of the fashion and apparel industry in mind

*SPA: Specialty Store Retailer of Private Label Apparel

Promote the following 4 functional strategies as the bases supporting the steady implementation of business strategies

Promotion of OMO*	Enhance the functions of combined services for online and offline shoppers to expand their purchase experience
Operational reform	Restructuring of operational processes, operations, and systems to achieve optimal supply chains
Personnel reform	Retention (of personnel) by promoting the measures to improve engagement, and ability to recruit employees in a stable manner
Reform of management platform	Optimize the Group's management platform, assess unprofitable operations, and create an office environment enabling the enhancement of productivity

*OMO: Online merge with offline

■ New Medium-Term Management Plan (FY21 to FY23) — Financial Goals

*Change of preconditions for medium-term financial goals (financial policy in particular) due to the coronavirus disaster
The direction of the next Medium-Term Management Plan that was explained in the First Half Earnings Announcement for Fiscal Year Ended March 2020 (dated November 2019): "During the next Medium-Term Management Plan period, we will aim to expand growth and improve profitability of our businesses and implement management with an eye also to maintaining a high level of capital efficiency (ROE) and achieving sustainable growth in EPS." This direction is partially changed.

- There is no change in the qualitative strategies during the Plan period, but sales and income for FY21 (initial year of the Plan) are expected to decline due to negative effects of coronavirus. Therefore, we are scheduled to implement inventory clearances and other measures early to mitigate the negative effects that may arise in the next fiscal year.
- As a result, cumulative cash flows for three years (plan period) are expected to be worse than anticipated before the coronavirus outbreak. Prioritize activities to ensure business continuity while the coronavirus disaster continues, and reconsider returning the Company's profit as much as possible after the disaster ends.
  Make every effort to maintain capital efficiency and improve EPS

Consolidated operating income for the final year of the Plan	Aim to achieve operating income of ¥9 to ¥10 billion for the final year through business growth and expansion, assessment of unprofitable operations, promotion of functional strategies, etc.
ROE for the final year of the Plan	Aim to achieve ROE of 12 to 14%
Dividend payout ratio, etc.	Dividend payout ratio: Aim to pay stable dividends, with the target ratio of 35% or more, but prioritize activities to ensure business continuity while the coronavirus disaster continues. Reconsider returning the Company's profit as much as possible after the disaster ends

*Cautionary Statement: The above information has been prepared on the assumption that the negative effects of coronavirus (effects on sales and procurement, inventory disposition, etc.) are eliminated by the end of FY21.
Please note that if the effects remain for a long time, actual results may differ significantly from the forecasts described in this document.

Sustainability

Sustainability statement

Aiming at setting the standard for lifestyle culture, we continually act positively to realize sustainable societies and environments through the creation of 5 values. We believe that by accumulating experience in this way, we can bring wealth to the world and make it a brighter place.

		Themes	SDGs
1	Supply chains	**Responsible product procurement and supply chain development** Procure safe, secure, transparent and environmentally conscious raw materials and products, and develop supply chains ensuring an ethical labor environment for which we bear responsibility.	7, 10, 12, 13, 15
2	Resources	**Realizing waste reduction and recycling-based model** Bear responsibility for the entire product lifecycle, and contribute to recycling (circular economy) by promoting the reduction of wastes emitted through business activities and the reuse and recycling of unnecessary clothes.	12
3	Communities	**Continuing with activities aimed at the development of local communities** Aim for the development of local communities by deepening friendly relationships with them and contributing to the improvement of lifestyle culture.	11
4	Human resources	**Creating an environment that fosters respect for individuals and work motivation** Create an organizational culture and labor environment enabling each employee to have work motivation and enhance productivity and fostering respect for diversity and individuals.	5, 8
5	Governance	**Establishing a management platform toward becoming a company that will last 100 years** Aim to become a company that will last 100 years by establishing a transparent and fair management system and creating a structure enabling quick and decisive decision-making.	16

FY21 Group Management Policy

Establishment of a sustainable revenue structure, and new value creation toward the next growth phase

- Further value creation for physical stores and continued growth of online stores
- Solidify the profitability of existing businesses that can compensate for declined revenue associated with the transfer of the CH business

* Raise efficiency by improving gross profit, productivity and inventory efficiency, and reforming operations

- New business development, domain expansion and overseas business development toward the next growth phase
- Contribute to sustainable societies

Establishment of a sustainable revenue structure, and new value creation toward the next growth phase

Business strategies

- Continue the stable growth of existing businesses
- Continued growth of physical and online stores
  Solidify profitability
- Challenges of new business creation
  Start new large-sized business development
  New domain development

Functional strategies

- OMO strategies
  In-house online store development toward the establishment of omnichannel, etc.
- Operational reform
  Standardized operational processes, operational communication reforms, etc.
- Personnel reform
  Talented worker management, personnel retention, creation of a personnel development framework
- Reform of management platform
  Restructure the Group organization, and assess and close unprofitable related companies, businesses and stores

Value creation to contribute to sustainable societies and environments

- Respect human rights and labor environments in supply chains
- Promote the use of environmentally conscious materials
- Procurement of raw materials by being conscious of biodiversity and animal welfare
- Waste reduction through business activities

III. Reference Materials

■ Movements in the Consolidated Gross Margin (Degree of Impact)

UNITED ARROWS LTD.

	FY18 1H	FY18 2H	FY18 Full Fiscal Year	FY19 1H	FY19 2H	FY19 Full Fiscal Year	FY20 1H	FY20 2H	FY20 Full Fiscal Year
Gross margin for the fiscal year	51.2%	51.7%	51.5%	51.5%	51.4%	51.4%	51.7%	50.1%	50.8%
Gross margin for the corresponding period of the previous fiscal year	50.8%	51.1%	51.0%	51.2%	51.7%	51.5%	51.5%	51.4%	51.4%
Difference	0.4pt	0.6pt	0.5pt	0.3pt	-0.3pt	-0.0pt	0.2pt	-1.4pt	-0.6pt

■ Factors that impacted the consolidated gross margin and the levels of overall impact

	FY18 1H	FY18 2H	FY18 Full Fiscal Year	FY19 1H	FY19 2H	FY19 Full Fiscal Year	FY20 1H	FY20 2H	FY20 Full Fiscal Year
Impact of movements in the gross margin of UNITED ARROWS LTD. total business units	0.1pt	0.3pt	0.2pt	0.3pt	-0.3pt	0.0pt	-0.1pt	-1.4pt	-0.8pt
Impact of movements in the gross margin of UNITED ARROWS LTD. Outlet and other stores	0.1pt	0.1pt	0.1pt	0.1pt	0.1pt	0.1pt	0.1pt	0.2pt	0.1pt
Impact of movements in other costs at UNITED ARROWS LTD.	0.2pt	0.2pt	0.2pt	-0.1pt	0.1pt	0.0pt	0.0pt	0.0pt	0.0pt
Other factors (subsidiary trends, consolidated adjustments, sales composition, etc.)	0.0pt	0.0pt	0.0pt	0.1pt	-0.2pt	-0.1pt	0.2pt	-0.1pt	0.0pt

■ Trends in the Consolidated SGA Expenses to Sales Ratio

UNITED ARROWS LTD.

	FY18			FY19			FY20		
	1H	2H	Full Fiscal Year	1H	2H	Full Fiscal Year	1H	2H	Full Fiscal Year
Total of SGA	46.9%	42.9%	44.7%	47.3%	42.2%	44.5%	46.4%	44.2%	45.2%
Advertising Expenses	2.1%	2.4%	2.2%	2.4%	2.1%	2.2%	2.3%	3.1%	2.7%
Personnel Expenses	17.0%	14.8%	15.8%	17.0%	14.4%	15.6%	16.9%	15.1%	15.9%
Rent	14.6%	13.7%	14.1%	14.7%	13.9%	14.2%	14.4%	14.2%	14.3%
Depreciation	1.3%	1.1%	1.2%	1.3%	1.1%	1.2%	1.3%	1.2%	1.2%
Other	11.9%	10.9%	11.4%	12.0%	10.7%	11.3%	11.5%	10.6%	11.1%