# Fiscal 2022

# Three-Month Period Ended June 30, 2021 Earnings Announcement

August 6, 2021

UNITED ARROWS LTD.

Cautionary Statement

Descriptions for earnings forecasts and descriptions other than objective facts 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 and affiliated company.**
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; Lurow GLR = Lurow GREEN LABEL RELAXING; THE STATION STORE = THE STATION STORE UNITED ARROWS LTD.; CHJP = CHROME HEARTS JP, GK; CH = CHROME HEARTS
**(2) The store brands contained within Trend-conscious Market and Basic Trend-conscious Market are as follows.**
Trend-conscious Market: UA, District, ASTRAET, BY, monkey time, STEVEN ALAN, ROKU, H BEAUTY&YOUTH, Odette e Odile, DRAWER, BLAMINK, AEWEN MATOPH, and LOEFF
Basic Trend-conscious Market: GLR, Lurow GLR, THE STATION STORE

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

# I. Overview of Business Results for the Three-Month Period Ended June 30, 2021

# ■ Performance Summary for the Three-Month Period FY2022

UNITED ARROWS LTD.

## Consolidated P/L (for details, see slides 5-8)

| | |
|---|---|
| Sales: | ¥25,264 million, YoY increase of 13.8%, decrease of 32.6% over the same period of FY20. Excluding the impact of changes in the consolidation structure and revenue recognition standards, sales increased 25.4% YoY and decreased 24.0% over the same period of FY20 |
| Gross margin: | 51.5%, up 8.0 percentage points YoY, down 3.3 percentage points over the same period of FY20 |
| SGA Expenses: | ¥13,902 million, YoY decrease of 5.1%, decrease of 20.1% over the same period of FY20. Even if the impact of the change in revenue recognition standards is excluded, SGA expenses were kept at the 80% level of the same period of FY20 |
| Operating loss: | ¥903 million, operating loss decreased significantly from ¥5,019 million in the same period of FY21 |

## Non-Consolidated Sales (for details, see slides 9–10)

| | |
|---|---|
| Non-Consolidated Sales: | ¥22,919 million, YoY increase of 21.5%, decrease of 27.1% over the same period of FY20. Excluding the impact of changes in revenue recognition standards, non-consolidated sales increased 25.0% YoY and decreased 25.0% over the same period of FY20 |
| Online Sales: | ¥6,808 million, composition rate : 29.7% (significantly up from 20.8% in the same period of FY20) |

## Inventory (for details, see slide 11)

| | |
|---|---|
| Inventory: | YoY decrease of 33.7%,<br>28.2% decrease even if the impact of the change in consolidation structure is excluded |

## Opening and Closing of Stores (for details, see slide 13)

| | |
|---|---|
| 1Q Results: | Group total number of new stores opened: 3; number of stores as of the end of 1Q: 333; expected number of stores at the end of the fiscal 22: 316 |

## Group companies (for details, see slide 14)

COEN CO., LTD. and UNITED ARROWS TAIWAN LTD.: Increased in both revenue and income

# Sales were below target but SGA expenses were curbed, and operating loss, ordinary loss, and net loss were less than expected

(Millions of yen)

| | | 1Q FY20 (Apr. 2019 to Jun. 2019) | 1Q FY21 (Apr. 2020 to Jun. 2020) | 1Q FY22 (Apr. 2021 to Jun. 2021) | vs. 1Q FY20 | | vs. 1Q FY21 | |
|---|---|---|---|---|---|---|---|---|
| Sales | | 37,505 | 22,198 | **25,264** | (12,241) | 67.4% | 3,065 | 113.8% |
| Excluding the impact of change in the consolidation structure* | | — | — | **—** | — | 74.0% | — | 122.1% |
| Excluding the impact of change in revenue recognition standards | | — | — | **—** | — | 69.2% | — | 116.9% |
| Excluding the impact of both changes | | — | — | **—** | — | 76.0% | — | 125.4% |
| Gross Profit | | 20,532 | 9,637 | **12,998** | (7,533) | 63.3% | 3,361 | 134.9% |
| | vs. Sales | 54.7% | 43.4% | 51.5% | -3.3pt | — | 8.0pt | — |
| SGA Expenses | | 17,389 | 14,656 | **13,902** | (3,486) | 79.9% | (753) | 94.9% |
| | vs. Sales | 46.4% | 66.0% | 55.0% | 8.7pt | — | -11.0pt | — |
| Operating Income | | 3,143 | (5,019) | **(903)** | (4,047) | — | 4,115 | 18.0% |
| | vs. Sales | 8.4% | — | — | — | — | — | — |
| Non Op. P/L | | (24) | 78 | **185** | 209 | — | 106 | 235.0% |
| | vs. Sales | — | 0.4% | 0.7% | — | — | 0.4pt | — |
| Ordinary Income | | 3,118 | (4,940) | **(718)** | (3,837) | — | 4,221 | 14.5% |
| | vs. Sales | 8.3% | — | — | — | — | — | — |
| Extraordinary income (loss) | | (31) | (9) | **(47)** | (15) | — | (37) | 490.1% |
| | vs. Sales | — | — | — | — | — | — | — |
| Net Income Attributable to Owners of Parent | | 1,914 | (3,582) | **(648)** | (2,562) | — | 2,934 | 18.1% |
| | vs. Sales | 5.1% | — | — | — | — | — | — |

* Calculated from the total sales of UA LTD., COEN CO., LTD., and UNITED ARROWS TAIWAN LTD. Actual consolidated sales include inter-subsidiary transactions, so please refer to them as reference values.

# ■ Factors behind changes in consolidated gross margin

UNITED ARROWS LTD.

## Although promoting the consumption of products for spring and summer of last year at outlets has significant impacts, the negative impact is expected to diminish in fall and winter

| | Gross Margin 1Q FY22 | vs. 1Q FY20 | vs. 1Q FY21 |
|---|---|---|---|
| Consolidated | 51.5% | -3.3pt | 8.0pt |
| UNITED ARROWS LTD. | 50.9% | -3.5pt | 9.3pt |
| Total Business Unit Sales | - | -2.3pt | 8.6pt |
| Outlet, etc. | - | -5.5pt | -3.1pt |
| Items exclusively sold at outlets, Composition ratio | - | -7.6pt | -6.8pt |
| COEN CO., LTD. | - | -0.5pt | 4.1pt |
| UNITED ARROWS TAIWAN LTD. | - | 5.3pt | 6.0pt |

# Consolidated SGA Expenses

UNITED ARROWS LTD.

## The ratio of SGA expenses is at a high level due to the delay in sales recovery, but the control of SGA expenses continues

(Millions of yen)

| | | 1Q FY20 (Apr. 2019 to Jun. 2019) | 1Q FY21 (Apr. 2020 to Jun. 2020) | 1Q FY22 (Apr. 2021 to Jun. 2021) | vs. 1Q FY20 | | vs. 1Q FY21 | |
|---|---|---|---|---|---|---|---|---|
| Sales | | 37,505 | 22,198 | **25,264** | (12,241) | 67.4% | 3,065 | 113.8% |
| Total SGA Expenses | | 17,389 | 14,656 | **13,902** | (3,486) | 79.9% | (753) | 94.9% |
| | vs. Sales | 46.4% | 66.0% | 55.0% | 8.7pt | - | -11.0pt | - |
| Advertising Expenses | | 869 | 836 | **499** | (369) | 57.5% | (336) | 59.7% |
| | vs. Sales | 2.3% | 3.8% | 2.0% | -0.3pt | - | -1.8pt | - |
| Personnel Expenses | | 6,345 | 6,090 | **5,347** | (998) | 84.3% | (742) | 87.8% |
| | vs. Sales | 16.9% | 27.4% | 21.2% | 4.2pt | - | -6.3pt | - |
| Rent | | 5,335 | 4,087 | **4,422** | (912) | 82.9% | 334 | 108.2% |
| | vs. Sales | 14.2% | 18.4% | 17.5% | 3.3pt | - | -0.9pt | |
| Depreciation | | 485 | 429 | **295** | (189) | 61.0% | (133) | 68.9% |
| | vs. Sales | 1.3% | 1.9% | 1.2% | -0.1pt | - | -0.8pt | - |
| Other | | 4,352 | 3,212 | **3,336** | (1,016) | 76.6% | 124 | 103.9% |
| | vs. Sales | 11.6% | 14.5% | 13.2% | 1.6pt | - | -1.3pt | - |

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

## Even if the impact of the change in revenue recognition standard is excluded, SGA expenses were kept at the 80% level of the same period of FY20

(Millions of yen)

| | 1Q FY20 (Apr. 2019 to Jun. 2019) | 1Q FY21 (Apr. 2020 to Jun. 2020) | 1Q FY22 (Apr. 2021 to Jun. 2021) | vs. 1Q FY20 | | vs. 1Q FY21 | |
|---|---|---|---|---|---|---|---|
| Sales | 37,505 | 22,198 | **25,264** | (12,241) | 67.4% | 3,065 | 113.8% |
| Excluding the impact of change in revenue recognition standards | - | - | **25,961** | (11,544) | 69.2% | 3,762 | 116.9% |
| Gross Profit | 20,532 | 9,637 | **12,998** | (7,533) | 63.3% | 3,361 | 134.9% |
| vs. Sales | 54.7% | 43.4% | 51.5% | -3.3pt | - | 8.0pt | - |
| Excluding the impact of change in revenue recognition standards | - | - | **13,384** | (7,147) | 65.2% | 3,747 | 138.9% |
| vs. Sales | - | - | 51.6% | -3.2pt | - | 8.1pt | - |
| Total SGA Expenses | 17,389 | 14,656 | **13,902** | (3,486) | 79.9% | (753) | 94.9% |
| vs. Sales | 46.4% | 66.0% | 55.0% | 8.7pt | - | -11.0pt | - |
| Excluding the impact of change in revenue recognition standards | - | - | **14,288** | (3,100) | 82.2% | (367) | 97.5% |
| vs. Sales | - | - | 55.0% | 8.7pt | - | -11.0pt | - |
| Advertising Expenses | 869 | 836 | **499** | (369) | 57.5% | (336) | 59.7% |
| vs. Sales | 2.3% | 3.8% | 2.0% | -0.3pt | - | -1.8pt | |
| Excluding the impact of change in revenue recognition standards | - | - | **885** | 16 | 101.9% | 49 | 106.0% |
| vs. Sales | - | - | 3.4% | 1.1pt | - | -0.4pt | - |

* Advertising expenses for 1Q FY22 includes the impact of UA LTD.'s Rakuten Points program, which began in October 2020.

# Non-Consolidated Sales Results by Sales Channel

UNITED ARROWS LTD.

(Millions of yen)

| | 1Q FY20 (Apr. 2019 to Jun. 2019) | 1Q FY21 (Apr. 2020 to Jun. 2020) | 1Q FY22 (Apr. 2021 to Jun. 2021) | vs. 1Q FY20 | | vs. 1Q FY21 | |
|---|---|---|---|---|---|---|---|
| Non-Consolidated Sales | 31,427 | 18,858 | **22,919** | (8,508) | 72.9% | 4,060 | 121.5% |
| Excluding the impact of change in revenue recognition standards | - | - | - | - | 75.0% | - | 125.0% |
| Total Business Unit Sales | 26,809 | 16,641 | **19,019** | (7,789) | 70.9% | 2,377 | 114.3% |
| vs. Sales | 85.3% | 88.2% | 83.0% | -2.3pt | - | -5.3pt | - |
| Retail | 20,109 | 7,347 | **11,958** | (8,150) | 59.5% | 4,611 | 162.8% |
| vs. Sales | 64.0% | 39.0% | 52.2% | -11.8pt | - | 13.2pt | - |
| Online | 6,526 | 9,148 | **6,808** | 282 | 104.3% | (2,340) | 74.4% |
| vs. Sales | 20.8% | 48.5% | 29.7% | 8.9pt | - | -18.8pt | - |
| Other (wholesale, etc.) | 173 | 146 | **252** | 78 | 145.3% | 106 | 172.7% |
| vs. Sales | 0.6% | 0.8% | 1.1% | 0.5pt | - | 0.3pt | - |
| Outlet, etc. | 4,618 | 2,216 | **4,053** | (564) | 87.8% | 1,836 | 182.9% |
| vs. Sales | 14.7% | 11.8% | 17.7% | 3.0pt | - | 5.9pt | - |

Existing Store Sales YoY

| | Sales | Number of customers | Ave. spend per customer |
|---|---|---|---|
| Retail + Online | 113.3% | 97.1% | 121.6% |
| Retail | 162.0% | 139.5% | 116.1% |
| Online | 75.6% | 68.7% | 108.5% |

* 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. These data are for reference only.

# Non-Consolidated Sales Results by Business

(Millions of yen)

| | 1Q FY20 (Apr. 2019 to Jun. 2019) | 1Q FY21 (Apr. 2020 to Jun. 2020) | 1Q FY22 (Apr. 2021 to Jun. 2021) | vs. 1Q FY20 | | vs. 1Q FY21 | |
|---|---|---|---|---|---|---|---|
| Total Business Unit Sales | 26,809 | 16,641 | **19,019** | (7,789) | 70.9% | 2,377 | 114.3% |
| Excluding the impact of change in revenue recognition standards | - | - | - | - | 72.8% | - | 117.3% |
| Trend-conscious Market | 17,281 | 11,247 | **12,412** | (4,868) | 71.8% | 1,165 | 110.4% |
| Excluding the impact of change in revenue recognition standards | - | - | - | - | 74.1% | - | 113.9% |
| Basic Trend-conscious Market | 9,527 | 5,394 | **6,606** | (2,920) | 69.3% | 1,212 | 122.5% |
| Excluding the impact of change in revenue recognition standards | - | - | - | - | 70.4% | - | 124.4% |

| | Existing store sales YoY | | |
|---|---|---|---|
| | Retail + Online | Retail | Online |
| Trend-conscious Market | 108.6% | 160.7% | 69.2% |
| Basic Trend-conscious Market | 123.6% | 164.6% | 89.8% |

* Please refer to slide 2 for a list of the store brands included in each business unit.

## Even if the impact of the change in consolidation structure is excluded, inventory decreased 28.2% YoY

(Millions of yen)

| | | FY21-End As of Mar. 31, 2021 | **FY22 1Q-End** As of Jun. 30, 2021 | vs. FY21-End | |
|---|---|---|---|---|---|
| Total Assets | | 63,619 | **62,209** | (1,410) | 97.8% |
| | Composition ratio | 100.0% | 100.0% | - | - |
| Current Assets | | 39,745 | **38,556** | (1,189) | 97.0% |
| | Composition ratio | 62.5% | 62.0% | | - |
| Noncurrent Assets | | 23,874 | **23,653** | (221) | 99.1% |
| | Composition ratio | 37.5% | 38.0% | | - |
| Current Liabilities | | 29,564 | **28,787** | (777) | 97.4% |
| | Composition ratio | 46.5% | 46.3% | | - |
| Noncurrent Liabilities | | 4,210 | **4,270** | 59 | 101.4% |
| | Composition ratio | 6.6% | 6.9% | | - |
| Total Net Assets | | 29,844 | **29,151** | (692) | 97.7% |
| | Composition ratio | 46.9% | 46.9% | | - |
| Reference: Balance of short- and long-term loans payable | | 15,600 | **15,470** | (130) | 99.2% |
| | Composition ratio | 24.5% | 24.9% | | - |

(Millions of yen)

| | FY21 1Q-End As of Jun. 30, 2020 | **FY22 1Q-End** As of Jun. 30, 2021 | vs. FY21 1Q-End | |
|---|---|---|---|---|
| Reference: Inventory | 31,212 | **20,686** | (10,526) | 66.3% |

UNITED ARROWS LTD.

## Net cash flows from operating activities were negative, though this improved substantially from 1Q FY21

(Millions of yen)

| | 1Q FY21 (Apr. 2020 to Jun. 2020) | 1Q FY22 (Apr. 2021 to Jun. 2021) | Major components of results for 1Q FY22 | |
|---|---|---|---|---|
| Cash flows from operating activities (sub-total) | (11,280) | **(245)** | | |
| Cash flows from operating activities | (11,378) | **(312)** | Depreciation<br>Decrease in trade receivables<br>Loss before income taxes<br>Increase in Inventory | 296<br>878<br>-766<br>-771 |
| Cash flows from investing activities | (1,470) | **(371)** | Purchases of property, plant and equipment<br>Performance of asset retirement obligations<br>Purchases of Intangible noncurrent assets | -88<br>-72<br>-340 |
| Cash flows from financing activities | 12,527 | **(130)** | Decrease in short-term loans payable | -130 |
| Cash and cash equivalents at the end of the period | 5,413 | **5,745** | | |

# ■ Opening and Closing of Stores in 1Q (Group Total)

UNITED ARROWS LTD.

## The number of stores at the end of FY22 is expected to decrease by 14 from the end of FY21 due to careful selection of store openings and review of unprofitable stores

| | | FY22 | | | | | |
|---|---|---|---|---|---|---|---|
| | | 1Q Results | | | FY22 Forecasts | | |
| | No. of stores as of FY21-end | Opened | Closed | No. of stores as of 1Q-end | Opened | Closed | No. of stores as of FY22-end |
| Group Total | **330** | 3 | 0 | **333** | 5 | 19 | **316** |
| UNITED ARROWS LTD. | **236** | 1 | 0 | **237** | 3 | 17 | **222** |
| COEN CO., LTD. | **87** | 2 | 0 | **89** | 2 | 2 | **87** |
| UNITED ARROWS TAIWAN LTD. | **7** | 0 | 0 | **7** | 0 | 0 | **7** |

## COEN CO., LTD. (February–April)

### Increased in both revenue and income

- Sales: ¥2.2 billion, up 23.5% YoY, down 18.6% over 1Q FY20 (excluding changes in revenue recognition standards: up 25.5% YoY, down 17.3% over 1Q FY20)
- Revenue and income increased as a rebound from the results of the previous year, but recovery remains slow
- Despite measures such as controlling inventory procurement and offering reductions, a gap with market needs occurred
- From Fall/Winter 2021, price will be set more carefully and adapted to the market
- The new target setting (revised from junior baby boomers to people in their 20s to 30s) implemented in the spring and summer of 2021 will continue in the fall and winter

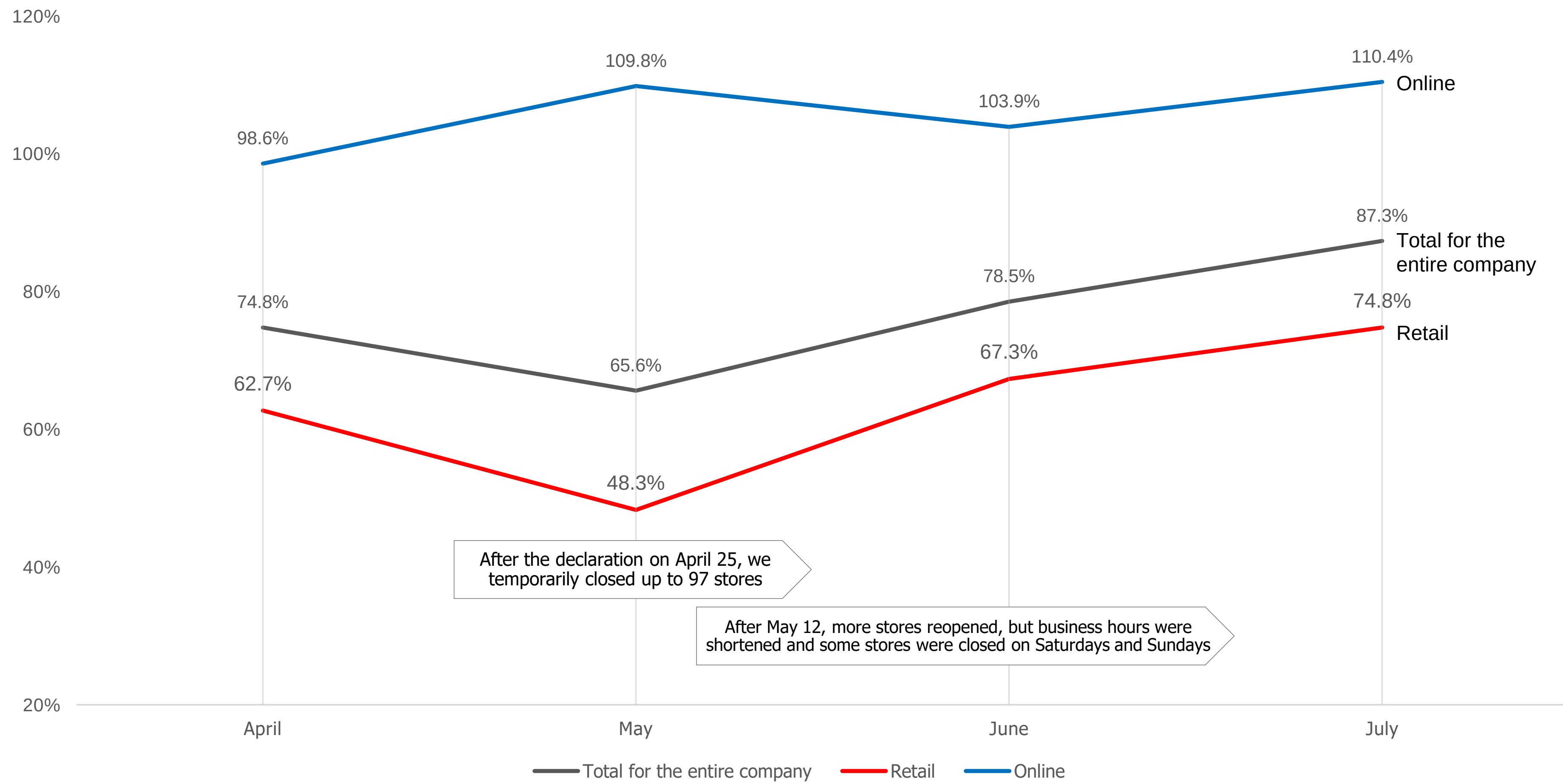
## UNITED ARROWS TAIWAN LTD. (February–April)

### Increased in both revenue and income

- Sales: ¥0.25 billion, up 69.8% YoY, up 38.1% over 1Q FY20
- Despite a strong performance in the 1Q, the current situation is challenging due to the COVID-19 pandemic in Taiwan

# II. Current Situation and Future Action

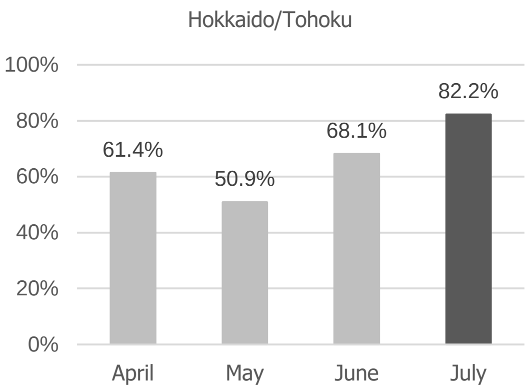
## Although retail sales in May fell sharply due to the extension of the state of emergency and the expansion of the coverage area, they are gradually recovering



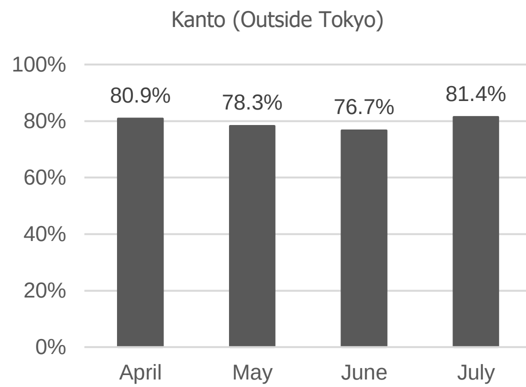

Change in sales at entire UA LTD., retail, and online compared with the same period of FY20
(Figures for July are preliminary figures)

# ■ Current Situation: change over the same period of FY20 by region

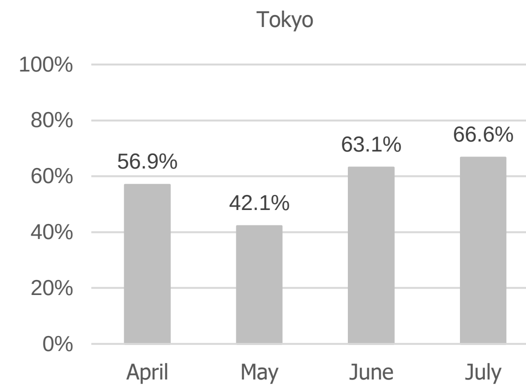
## In the Kanto region (outside Tokyo), where a state of emergency was not declared, the level remained at 80% of the same period of FY20. The negative margin is limited unless retail stores are closed



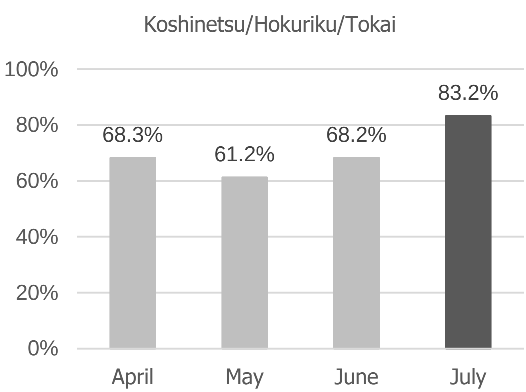

May 16 to June 21: Hokkaido



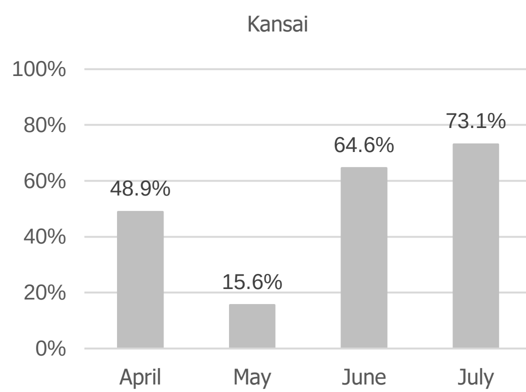

A state of emergency was not declared



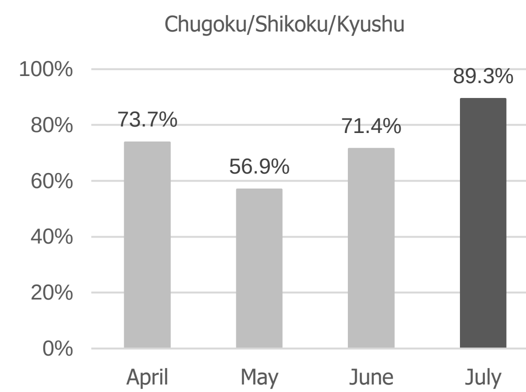

April 25 to June 21
July 12 to August 31




May 12 to June 21: Aichi




April 25 to June 21: Kyoto, Osaka, Hyogo




May 12 to June 21: Fukuoka
May 16 to June 21: Okayama, Hiroshima

Change in UA LTD.'s sales by region compared with the same period of FY20
(Figures for July are preliminary figures, and below the graph is the time when the state of emergency was declared in each area)

# 1. Measures from April to the present

- Flexible distribution of salespersons

  Supporting sales activities by flexibly assigning sales staff of temporarily closed stores to operating stores and headquarters offices

- Expanding contact points through online means

  Active holding of live streaming, increased posting of staff styling, expansion of LINE customer service

- Increasing online sales products

  Attracting customers to retail stores in major cities is expected to be difficult due to the declaration of the sate of emergency. Focusing sale inventory on online sales

# 2. Future Policies

- Increasing inventory for fall and winter

  Aiming to recover from the second half of FY22, increasing inventory of products for fall and winter to 113% of FY21 and 90% of FY20

- Curbing discount sales at online

  Curbing discount sales at online in parallel with inventory control

- Expanding new actions

  Launching new actions including outdoor and wellness to increase UA brand presence

## We will propose affluent lifestyles for a new era and continue to set a standard for lifestyle culture

### Our first outdoor label

Our first outdoor label "koti BEAUTY & YOUTH," which launched in April, offers a one-stop selection of gear and wear. Offering camping equipment and other outdoor supplies, the label aims to propose new values and expand its customer base.

### A new brand that enriches our new daily lives

"CITEN" is a new brand which will debut in fall and winter in 2021, and sell products mainly online. With the participation of external creators, CITEN develops highly empathetic that reflect customer needs to enrich customers' new daily lives.


### Establishment of contact points for corporate customers

A consulting service for corporate customers that makes use of aesthetic, planning, and creativity cultivated in select shops. "PRODUCE," "UNIFORM," and "NOVELTY" are the core of the services.

## We will propose affluent lifestyles for a new era and continue to set a standard for lifestyle culture

California
General Store


### Communicating wellness and sustainability

We inherited the trademark of the legendary surf shop "California General Store." In September, a new store will open in Kugenuma Beach, Fujisawa City, Kanagawa Prefecture in Japan. We propose a lifestyle for a new era as a base for providing information on "wellness" and "sustainable" including not only surfing, but also yoga and activity casual.

UNITED ARROWS
BOTTLE SHOP


### Starting the sale of selected alcohol

From August, we open the "UNITED ARROWS BOTTLE SHOP" corner at H BEAUTY & YOUTH in United Arrows Harajuku main store and start selling alcohol selected from Japan and overseas. Propose a rich lifestyle with alcohol through regular collaboration projects.

# III. Message from Matsuzaki, Representative Director, President and CEO

# ■ What values should the UA LTD. Group provide?



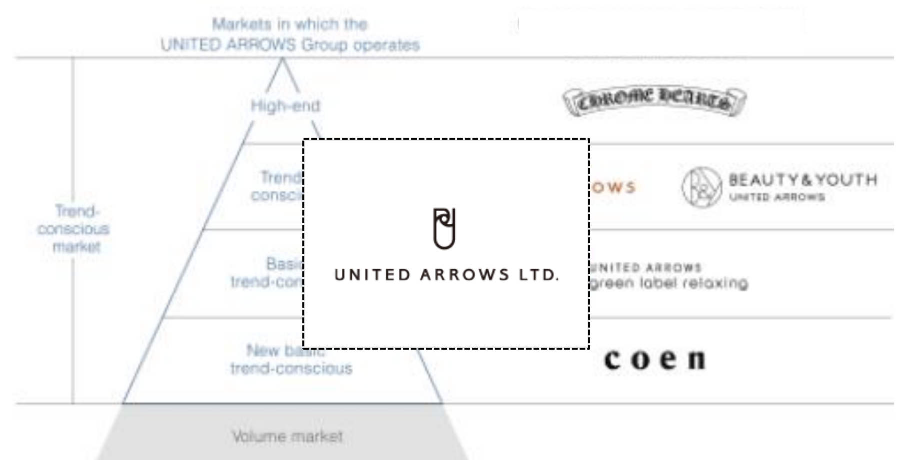
## With sincerity and a sense of beauty, we continually create new tomorrows for our customers, setting the standard for lifestyle culture

**Past – Present**

☞ **Expanding opportunities to provide values by increasing store brands and broadening the range of stores**

**Present – Future**

☞ **Increase the value of the corporate brand itself**

# ■ Source of Corporate Brand Value

UNITED ARROWS LTD.

## Keeping these three elements in step with the times and providing things that are half a step ahead of customers' expectations

**Service**

☞ **High level of customer service**

**Products**

☞ **Selection of products**

**Places**

☞ **Aesthetic sales environment**

**DX utilization** →

**Service**

☞ **CRM**
**Understanding each customer and building deeper relationships of trust with customers**

**Products**

☞ **SCM**
**Satisfy customer needs with appropriate inventory management**

**Places**

☞ **OMO**
**Realization of a world view that attracts customers and high convenience through the release of our new EC site**

# IV. Reference Materials

# ■ Consolidated P/L Plan for FY22

UNITED ARROWS LTD.

## Dividend payout ratio is set at 31% provisionally, and the resumption of dividends is scheduled to take place at ¥19 annually, aiming to return to profitability on a full-fiscal-year basis

(Millions of yen)

| | | FY20 Full Fiscal Year (Apr. 2019 to Mar. 2020) | FY21 Full Fiscal Year (Apr. 2020 to Mar. 2021) | FY22 Plan (Apr. 2021 to Mar. 2022) | vs. 1Q FY20 | (Reference) Excluding the impact of change in the consolidation structure | vs. 1Q FY21 | (Reference) Excluding the impact of change in the consolidation structure |
|---|---|---|---|---|---|---|---|---|
| Sales | | 157,412 | 121,712 | **124,800** | 79.3% | Approximately 86% | 102.5% | Approximately 110% |
| Gross Profit | | 79,983 | 55,020 | **63,300** | 79.1% | | 115.0% | |
| | vs. Sales | 50.8% | 45.2% | 50.7% | ― | | ― | |
| SGA Expenses | | 71,224 | 61,634 | **60,300** | 84.7% | | 97.8% | |
| | vs. Sales | 45.2% | 50.6% | 48.3% | ― | | ― | |
| Operating Income | | 8,758 | (6,613) | **3,000** | 34.3% | | ― | |
| | vs. Sales | 5.6% | ― | 2.4% | ― | | ― | |
| Non Op. P/L | | 44 | 1,735 | **580** | 1294.5% | | 33.4% | |
| | vs. Sales | 0.0% | 1.4% | 0.5% | ― | | ― | |
| Ordinary Income | | 8,803 | (4,878) | **3,580** | 40.7% | | ― | |
| | vs. Sales | 5.6% | ― | 2.9% | ― | | ― | |
| Extraordinary income (loss) | | (2,582) | (2,641) | **(1,120)** | ― | | ― | |
| | vs. Sales | ― | ― | ― | ― | | ― | |
| Net Income Attributable to Owners of Parent | | 3,522 | (7,197) | **1,750** | 49.7% | | ― | |
| | vs. Sales | 2.2% | ― | 1.4% | ― | | ― | |

- Medium-Term Management Plan for FY21 through FY23

  Basic Policy: "Weather the crisis and regain our earnings power"

  1. Drastically review the revenue structure
  2. Regain earnings power

▼

- FY22 Group Management Policy

## Major reforms toward sustainable growth and future
## For customer satisfaction in a new era

- Required achievement of the operating income and productivity plan (operating income plan per person)
- Required achievement of 50.7% of the consolidated gross margin plan
- Implementation of base strategies that support sustainable growth (sustainability, DX)

# Major reforms toward sustainable growth and future
# For customer satisfaction in a new era

- Required achievement of the operating income and productivity plan (operating income plan per person)
  1. Assessment of underperforming businesses, stores, labels and subsidiaries, and redrafting of the growth strategy
  2. Continued structural reforms toward increased efficiency of the headquarters organization and personnel expenses
  3. Implementation of measures toward improved productivity of stores

- Required achievement of 50.7% of the consolidated gross margin
  1. Thorough improvement of inventory efficiency through product reforms of the main labels
  2. Expansion of sales measures through OMO promotion and digital marketing
  3. Increase in online sales accompanied by profitability improvement

- Base strategies that support sustainable growth
  1. Realization of the customer-first concept by promoting digital transformation
  2. Promotion of sustainability corresponding to the market characteristics

# New Medium-Term Management Plan From FY2021 to FY2023

## ■ Changes in the market environment due to the COVID-19 pandemic

UNITED ARROWS LTD.

# The market environment has significantly changed against a background of changes in society caused by the COVID-19 pandemic

| | | | | |
|---|---|---|---|---|
| Changes in society | Behavior to avoid closed spaces, crowded places, and close-contact settings | Avoiding going out | Expansion of remote work | Suppressing consumption due to anxiety for lower income |
| Changes in the retail industry | Decrease in the number of store visitors | Shorter time in stores than before | Accelerating the shift to online shopping/services | Suppressing consumption due to anxiety for lower income |
| Changes in the apparel industry | Delayed recovery in commercial facilities in large cities | Accelerating the shift to online shopping/services | Decline in customer needs for favorite products | Decline in demand for formal clothes |

# ■ Issues the Company must deal with amid the COVID-19 pandemic



| | |
| --- | --- |
| Delayed recovery in commercial facilities in large cities | • Delayed recovery in sales of stores located in commercial facilities in large cities compared to those in the suburbs of regional cities<br>• Decline in the advantage of locations, i.e., convenience and ability to attract customers |
| Further strengthening online sales | • Surge in online sales, which cannot offset a decline in sales of physical stores<br>• Need to strengthen the ability to attract customers by utilizing contactless communication via the Internet |
| Acceleration of casualization of business wear | • Need to promptly adjust merchandise to deal with rapid casualization of business wear<br>• Development of a business style suitable for the new normal in the age of COVID-19 |
| Decline in product unit prices | • Decrease in product unit prices due to a lower composition ratio of heavy clothing such as suits and jackets<br>• Decline in customers' desire to buy their favorite products due to anxiety for lower income |
| Inventory efficiency | • Increase in remaining stock of 2020 spring and summer season products due to the closure of physical stores<br>• Negative effects on the gross margin due to an increase in markdown sales stemming from factors described above |
| Problem regarding cost structure | • Need to establish a cost structure that can withstand a sales decline<br>• Need to implement drastic reform by being free from existing perspectives |

# Possible to solve problems by utilizing the Company's strengths

**1. Strong trust-based relationships with customers**

- Strong capability of physical stores to deal with customers and sell products
- Sales representatives' problem-solving ability offered to customers
- Knowhow to attract new customers

**2. Ability to address the evolving needs of customers**

- Ability to analyze trends by grasping social trends
- Ability to address the evolving needs of customers in collaboration between the Product, Sales, and Promotion Departments

**3. High composition ratio of online sales**

- Percentage of online sales on a non-consolidated basis
  FY2020: 22.6% (industry average: 13.8%*)
  *"FY2019 E-Commerce Market Survey" published by the Ministry of Economy, Trade and Industry
- Necessary measures are under development for the establishment of the OMO system

## Solving issues the Company must deal with

| | | |
|---|---|---|
| Delayed recovery in commercial facilities in large cities | Further strengthening online sales | Acceleration of casualization of business wear |
| Decline in product unit prices | Inventory efficiency | Problem regarding cost structure |

## In light of changes in the market environment, priority has been put on improvement in profitability for the period of the Medium-Term Management Plan

1. Recovery in commercial facilities in large cities may take time
2. Difficult to expand businesses based on new store openings
   → Review a strategy for store openings and an area strategy
3. Changes in business demand are accelerating
   → Rethink the mix of merchandise suitable for the new normal
4. The need to strengthen customer contact through the Internet is increasing
   → Further strengthening measures centering on the Company's e-commerce site

- Basic policy: "Weather the crisis and regain our earnings power"

1. Drastically review the revenue structure
2. Regain earnings power

- Financial targets (partly modified in light of the COVID-19 pandemic)

| | |
|---|---|
| Consolidated operating income for the final fiscal year of the Medium-Term Management Plan | ¥7,000-8,000 million<br>*We intend to improve this from an expected loss of ¥6,500 million for FY2021 to an increase by ¥13,500-14,500 million on a cumulative basis for the next two years. |
| ROE for the final fiscal year of the Medium-Term Management Plan | 12-14%<br>*Remain unchanged |
| Dividend payout ratio during the Medium-Term Management Plan | Plan to disclose it after scrutinizing financial conditions, including the Company's future investment plan, financial market developments, and other necessary factors |

# New Medium-Term Management Plan "Drastically Review the Revenue Structure"

UNITED ARROWS LTD.

- Determining unprofitable subsidiaries, businesses and stores (closure of stores/streamlining, etc.)
  - Expecting to close consolidated stores by around 10% at this stage, and continue to consider closure/streamlining
- Structural reform of the head office organization
  - Reorganizing functions/operations, and enhancing productivity by reducing low value added operations
  - Continuing remote work, integrating the head office through introduction of the free address system, etc., and reducing fixed costs
- Changes in personnel measures
  - Expecting a reduction in the number of employees by around 10% by the final fiscal year of the Medium-Term Management Plan through a reduction in hiring, etc.
  - Strategically assigning staff members in priority areas such as online sales and customer support
  - Correcting downward rigidity of personnel expenses and shifting to a remuneration system highly linked with business performance
  - Continuing partial cuts in compensation paid to directors
- Improvement in the gross margin by enhancing inventory efficiency
  - Investigating an appropriate way to hold inventories through the inventory improvement project, and improving the gross margin

# • Improvement in revenue of core businesses

## 1. Improvement in terms of merchandise

- Changes in season-based merchandise, introduction of seasonless products to deal with climate change
- Product development focusing on the new normal
  Strengthening casual products, development of one mile wear, expansion of wellness products (outdoor, yoga, etc.)
- Modification of the price range


## 2. Improvement in terms of sales/ promotion

- Establishment of contactless communication with customers through online customer services, live stream of explanatory video of products, etc.
- Brushing up comments appeared in the e-commerce site

# • Business development in line with the new era

- New business development with a concept focusing on the new normal
- Business conditions for which multi-store openings are not assumed, based on the Company's e-commerce site
- Acquiring our new customer base by introducing a price range between GLR and COEN

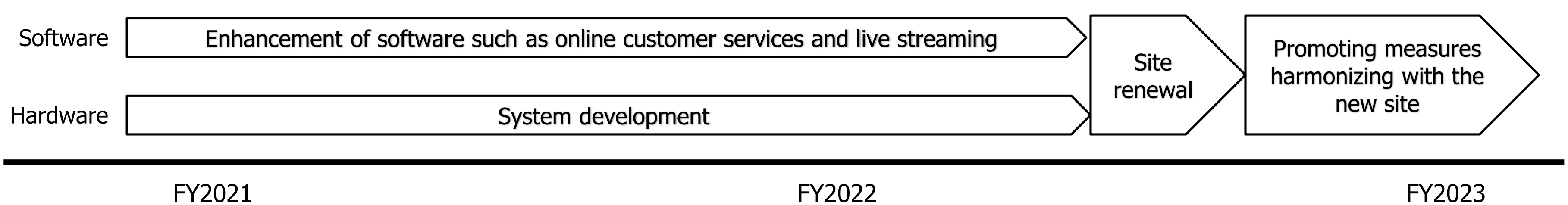
# • Promotion of OMO

## 1. Enhancement in terms of software

- Aiming to become the top company in the industry in terms of ability to serve customers for online shopping and the quality of comments on merchandise and styling images (Utilization of SNS, enhanced engagement of sales representatives in online sales, etc.)

## 2. Innovation of hardware

- Redesigning the Company's e-commerce site by using our own infrastructure, possibly during FY2022
- Intend to offer services equivalent to those of physical stores in online shopping

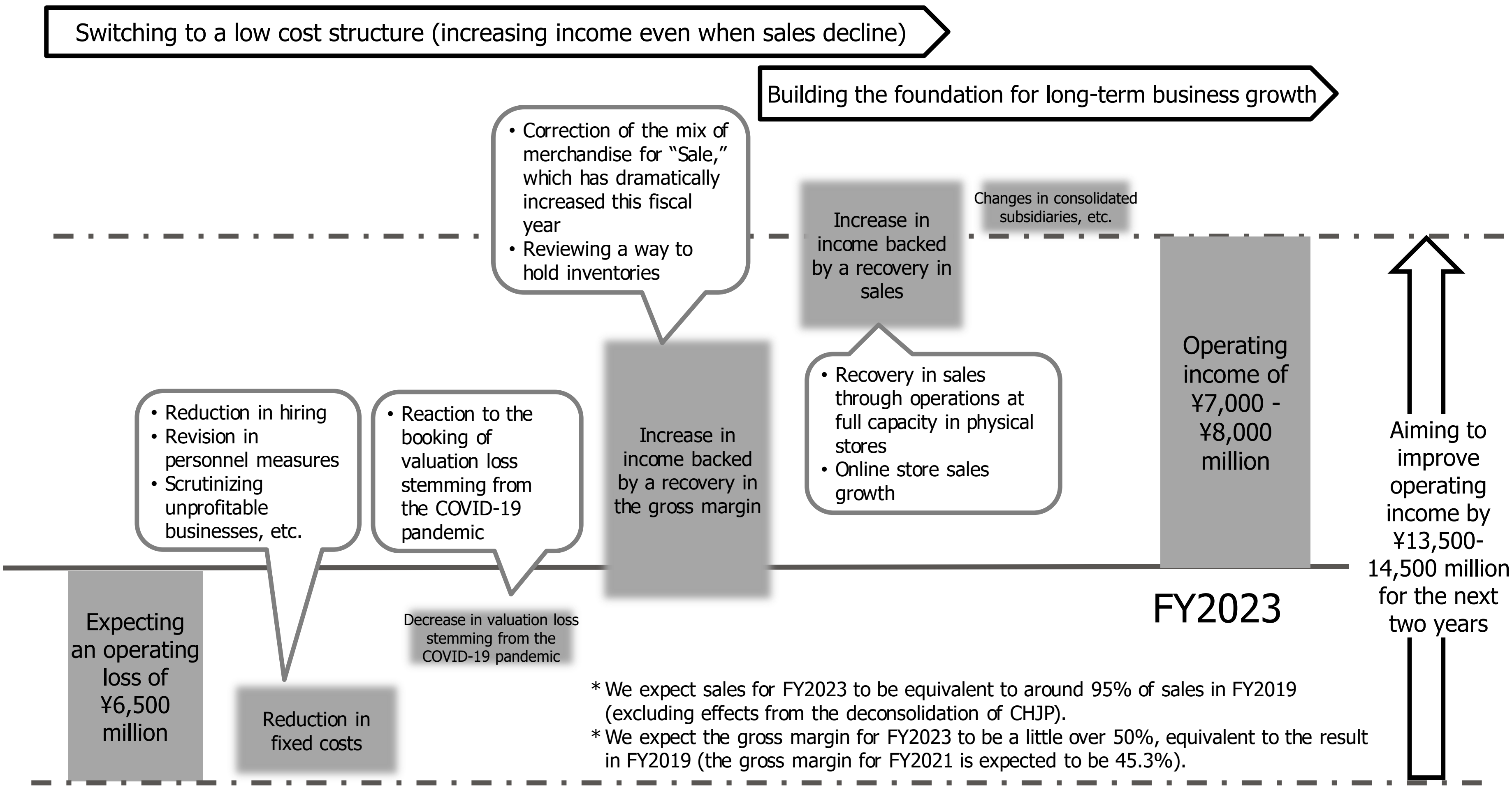


## The Matrix of Issues the Company Must Deal With and Matters to Be Handled in the New Medium-Term Management Plan



| | | Delayed recovery in commercial facilities in large cities | Further strengthening online sales | Acceleration of casualization of business wear | Decline in product unit prices | Inventory efficiency | Problem regarding cost structure |
|---|---|---|---|---|---|---|---|
| Drastically review the revenue structure | Withdrawal from or streamlining of unprofitable stores, businesses, and subsidiaries | ○ | | | | ○ | ○ |
| | Structural reform of the head office organization | | ○ | | | | ○ |
| | Changes in personnel measures | | ○ | | | | ○ |
| | Improvement in inventory efficiency | | | | | ○ | ○ |
| Regain earnings power | Improvement in revenue of core businesses Improvement in terms of merchandise | | | ○ | ○ | ○ | |
| | Improvement in revenue of core businesses Improvement in terms of sales/promotion | ○ | ○ | | | ○ | |
| | Business development in line with the new era | | ○ | ○ | ○ | | |
| | Promotion of OMO | ○ | ○ | ○ | | ○ | ○ |

## First half: Switching to a structure that can secure profit; Latter half: Building the foundation for new business growth
## Aiming to improve operating income by ¥13,500-14,500 million for the next two years




* We expect sales for FY2023 to be equivalent to around 95% of sales in FY2019 (excluding effects from the deconsolidation of CHJP).
* We expect the gross margin for FY2023 to be a little over 50%, equivalent to the result in FY2019 (the gross margin for FY2021 is expected to be 45.3%).

* Please note that the above perspectives for improvements are based on provisional calculations at this stage. There is a possibility that the breakdown of items will change in the future.

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

UNITED ARROWS LTD.

| | FY19 | | | FY20 | | | FY21 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1H | 2H | Full Fiscal Year | 1H | 2H | Full Fiscal Year | 1H | 2H | Full Fiscal Year |
| Gross margin for the fiscal year | 51.5% | 51.4% | 51.4% | 51.7% | 50.1% | 50.8% | 42.9% | 47.0% | 45.2% |
| Gross margin for the corresponding period of the previous fiscal year | 51.2% | 51.7% | 51.5% | 51.5% | 51.4% | 51.4% | 51.7% | 50.1% | 50.8% |
| Difference | 0.3pt | -0.3pt | -0.0pt | 0.2pt | -1.4pt | -0.6pt | -8.7pt | -3.1pt | -5.6pt |

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

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Impact of movements in the gross margin of UNITED ARROWS LTD.'s total business units | 0.3pt | -0.3pt | 0.0pt | -0.1pt | -1.4pt | -0.8pt | -6.0pt | — | — |
| Impact of movements in the gross margin of UNITED ARROWS LTD.'s outlet and other stores | 0.1pt | 0.1pt | 0.1pt | 0.1pt | 0.2pt | 0.1pt | -0.9pt | — | — |
| Impact of movements in other costs at UNITED ARROWS LTD. | -0.1pt | 0.1pt | 0.0pt | 0.0pt | 0.0pt | 0.0pt | -1.4pt | — | — |
| Other factors (subsidiary trends, consolidated adjustments, sales composition, etc.) | 0.1pt | -0.2pt | -0.1pt | 0.2pt | -0.1pt | 0.0pt | -0.5pt | — | — |

* Due to the change in the scope of consolidation, the breakdown of the differences in the 2H and the Full Fiscal year of the FY21 period is omitted.

# ■ Trends in the Consolidated SGA Expenses to Sales Ratio



| | FY19 | | | FY20 | | | FY21 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1H | 2H | Full Fiscal Year | 1H | 2H | Full Fiscal Year | 1H | 2H | Full Fiscal Year |
| Total of SGA Expenses | 47.3% | 42.2% | 44.5% | 46.4% | 44.2% | 45.2% | 55.8% | 46.6% | 50.6% |
| Advertising Expenses | 2.4% | 2.1% | 2.2% | 2.3% | 3.1% | 2.7% | 3.0% | 2.6% | 2.8% |
| Personnel Expenses | 17.0% | 14.4% | 15.6% | 16.9% | 15.1% | 15.9% | 21.1% | 16.1% | 18.3% |
| Rent | 14.7% | 13.9% | 14.2% | 14.4% | 14.2% | 14.3% | 17.1% | 15.6% | 16.3% |
| Depreciation | 1.3% | 1.1% | 1.2% | 1.3% | 1.2% | 1.2% | 1.6% | 1.2% | 1.4% |
| Other | 12.0% | 10.7% | 11.3% | 11.5% | 10.6% | 11.1% | 12.9% | 11.1% | 11.9% |