

**Fiscal 2018
Nine-Month Period Ended
December 31, 2017
Earnings Announcement**

February 5, 2018
UNITED ARROWS LTD.

I . Overview of Business Results for the Nine-Month Period Ended December 31, 2017	P. 3~15
II . Progress in Implementing Priority Issues	P. 16~21
III . Reference Materials	P. 22~28

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.

■ **Abbreviations used throughout this report: The following abbreviations have been 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; CH / CHROME HEARTS; THE AIRPORT STORE / THE AIRPORT STORE UNITED ARROWS LTD.; THE STATION STORE / THE STATION STORE UNITED ARROWS LTD.; SBU / Small Business Unit; CHJP / CHROME HEARTS JP, GK

■ **Sales by business: Sales of the following store brands have been included in UA and SBU sales.**

UA: UA, District, THE SOVEREIGN HOUSE, ASTRAET, BY, monkey time, STEVEN ALAN, ROKU BEAUTY&YOUTH, H BEAUTY&YOUTH
SBU: Another Edition, Jewel Changes, Odette e Odile, Boisson Chocolat, DRAWER, EN ROUTE, THE AIRPORT STORE, THE STATION STORE

I . Overview of Business Results for the Nine-Month Period Ended December 31, 2017

Consolidated P/L (For details, see pages 5, 8 and 9)

- Consolidated sales: Up 7.0% YoY. Ordinary income: Up 20.3% YoY. Increases in both revenue and earnings.
- Gross margin: 52.7%. Up 0.1 of a percentage point YoY. Continued upward trend with the gross margin exceeding initial target.
- SGA expenses to sales ratio: 44.2%. Down 0.9 of a percentage point YoY. Due mainly to such factors as decreases in each of the personnel expenses and other fixed costs ratios.
- Operating income and Ordinary income: Both up approx. 20.0% YoY. Despite an increase in such accounting line items as extraordinary loss, net income also climbed more than 10% YoY.

Non-Consolidated Sales (For details, see pages 6 and 7)

- Existing store sales: Up 4.4% YoY (Retail sales: Up 0.9%. Online store sales: Up 19.8%)
- By sales channel: Online sales remained strong. Online store sales comprised 17.7% of total sales.
- Number of customers of existing retail and online stores: Up 2.8% YoY (reference figure).

Inventory (For details, see page 10)

- Down 4.5% from the corresponding period of the previous fiscal year-end. Below the YoY rate of sales growth for the nine-month period ended December 31, 2017 of 7.0%. Continued progress with efforts aimed at enhancing efficiency.

Opening and Closing of Stores (For details, see pages 12 to 14)

- Group total 3Q nine-month period results: Number of new stores opened: 18. Number of stores closed: 10. Number of stores as of FY18 3Q-end: 368
- FY18 forecast Group total: Number of new stores opened: 20. Number of stores closed: 32. Forecast number of stores as of FY18-end: 348

Group Companies (For details, see page 15; Status of major consolidated subsidiaries is presented as follows)

- FIGO CO., LTD.: Decreases in both revenue and earnings. COEN CO., LTD.: Increases in both revenue and earnings. CHJP: Business unit sales up YoY.

3Q nine-month period: Sales: Up 7.0% YoY. Ordinary income: Up 20.3% YoY. Increases in both revenue and earnings.

- Consolidated sales: Increases in revenue at Group companies including UNITED ARROWS LTD. and COEN CO., LTD.
High online sales growth.
- Gross margin: 52.7%. Up 0.1 of a percentage point YoY.
→ While improvement in the 3Q gross margin narrowed compared with the 1H due mainly to growing clearance sale demand aimed at House Card members, the gross margin continued to exceed initial targets.
- SGA expenses to sales ratio: 44.2%. Down 0.9 of a percentage point.
→ Due mainly to decreases in each of the personnel expenses and other fixed costs ratios in line with the increase in revenue.
- Operating income and Ordinary income: Both up approx. 20.0% YoY. Net income also climbed more than 10% YoY.
- Extraordinary loss: Increase in impairment loss (including loss related to business withdrawal.)

(Millions of yen)

	Consolidated Results 9-Month Period of FY18				9-Month Period of FY17	
	Results	vs. Sales	YoY Increase (Decrease)	%		vs. Sales
Sales	115,175	100.0%	7,571	107.0%	107,604	100.0%
Gross Profit	60,652	52.7%	4,057	107.2%	56,595	52.6%
SGA Exp.	50,861	44.2%	2,375	104.9%	48,486	45.1%
Operating Inc.	9,790	8.5%	1,681	120.7%	8,108	7.5%
Non Op. P/L	150	0.1%	(5)	96.4%	156	0.1%
Ordinary Inc.	9,941	8.6%	1,676	120.3%	8,264	7.7%
Extraordinary P/L	(979)	-0.9%	(510)	—	(468)	-0.4%
Net Income Attributable to Owners of Parent	5,747	5.0%	572	111.1%	5,175	4.8%

■ Non-Consolidated Sales Results by Sales Channel

Non-consolidated sales (excluding the CH business from the previous period): Up 7.1% YoY*.
Existing store sales: Up 4.4% YoY.

- Both retail and online store business unit sales increased YoY. Online store sales rose around 20%.
- Sales composition: Online store sales: 17.7%. Outlet store sales: 14.8%.
- Number of customers of existing retail and online stores: Up 2.8% YoY (reference figure).

(*) Non-consolidated sales including the CH business in the previous period: Up 1.1% YoY.

(Millions of yen)

Non-Consolidated Results 9-Month Period of FY18 (Comparison Excl. CH Results from the 3Q (9-Month Period) of FY17)						
	Results	Share	YoY Increase (Decrease)	%	9-Month Period of FY17	Share
Non-Consolidated Sales	96,255	100.0%	6,345	107.1%	89,909	100.0%
Total Business Unit Sales	81,970	85.2%	4,954	106.4%	77,015	85.7%
Retail	64,311	66.8%	2,074	103.3%	62,236	69.2%
Online	17,039	17.7%	2,929	120.8%	14,110	15.7%
Other (Wholesale, Other)	618	0.6%	(49)	92.6%	668	0.7%
Outlet, Other	14,285	14.8%	1,391	110.8%	12,894	14.3%

Existing Stores YoY (Note: Reference Data)

	Sales	Number of Customers	Ave. Spending per Customer
Retail + Online	104.4%	102.8% ※	101.2% ※
Retail	100.9%	98.5%	102.5%
Online	119.8%	118.2% ※	103.4% ※

Note: The number of customers and average spending per customer for existing retail and online stores as well as for online stores have been calculated using data available to the Company through its online and ZOZOTOWN STORES.
(The two malls account for approximately 80% of online store sales.)

This information is provided for reference purposes only. YoY sales data includes other online malls. Therefore, the YoY number of customers x YoY average spending per customer does not reconcile with YoY sales.

■ Non-Consolidated Sales Results by Business

In each business, business unit sales and existing store sales up YoY.

Steady trends across all of the following:

- UA: Men's casual items and women's items in general.
- GLR: Women's items in general.
- SBU: Steady performance in general excluding certain businesses.

* Business unit total for the corresponding period of the previous fiscal year is presented after excluding CH business sales.

				(Millions of yen)
Non-Consolidated Results 9-Month Period of FY18				
	Results	YoY Increase (Decrease)	%	9-Month Period of FY17
Total Business Unit Sales	81,970	4,954	106.4%	77,015
UA	45,772	2,858	106.7%	42,914
GLR	24,697	1,477	106.4%	23,220
SBU	11,499	618	105.7%	10,880
Existing Store Sales YoY				
	Retail + Online	Retail	Online	
UA	103.4%	99.5%	123.3%	
GLR	104.8%	102.2%	117.8%	
SBU	107.1%	103.9%	114.7%	

Note: Details of abbreviations for each business are listed on page 2 of this earnings announcement.

■ Consolidated Gross Margin Results

3Q nine-month period consolidated gross margin: 52.7%. Up 0.1 of a percentage point YoY.

Consolidated gross margin for the nine-month period ended December 31, 2017 of FY18	52.7%
Consolidated gross margin for the nine-month period ended December 31, 2016 of FY17	52.6%
Difference	+0.1pt

■ 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	0.0pt	Gross margin of total business units: Equivalent to the corresponding period of the previous fiscal year. 1H: Positive impact from movements in foreign currency exchange rates. 3Q: Temporary downturn owing mainly to growing clearance sales demand targeting House Card members.
Impact of movements in the gross margin of UNITED ARROWS LTD. OUTLET and other stores	0.1pt	Gross margins of outlet and other stores: Up 0.6 of a percentage point YoY (Improvement in the gross margins of regular business products and exclusive products).
Impact of movements in UNITED ARROWS LTD. other costs	0.1pt	Positive impact attributable to such factors as decreases in loss on devaluation of products, disposal, and royalties.
Other factors (trends in subsidiaries, consolidated adjustment, sales composition, etc.)	(0.1)pt	Attributable to such factors as increase in UNITED ARROWS LTD. OUTLET store sales as a percentage of consolidated sales.

• FY17 CHROME HEARTS business data has been excluded from "UNITED ARROWS LTD. total business units" and included in "Other factors" for the fiscal year under review and the previous fiscal year in order to enable a comparison between FY18 and FY17.

Note: Details of factors that impacted the consolidated gross margins for the 1H, 2H and full fiscal years of the past three fiscal years are included toward the end of this earnings announcement.

■ Consolidated SGA Expenses

3Q nine-month period consolidated SGA expenses: Up 4.9% YoY.

SGA expenses to sales ratio: 44.2%. Down 0.9 of a percentage point YoY.

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

- Ratio of personnel expenses to sales: Decrease due to the increase in revenue as well as the decrease attributable to certain vacancies
- Ratio of other SGA expenses to sales: Decrease in related costs accompanying the increased efficiency of inventories and decrease in temporary expenses related to the opening of stores by certain subsidiary companies.

(Millions of yen)

	Consolidated Results 9-Month Period of FY18					(millions of yen)	
	Results	vs. Sales	YoY Increase (Decrease)	%	Movement vs. Sales	9-Month Period of FY17	vs. Sales
Sales	115,175	100.0%	7,571	107.0%	0.0%	107,604	100.0%
SGA Exp.	50,861	44.2%	2,375	104.9%	-0.9%	48,486	45.1%
Advertising Expenses	2,511	2.2%	121	105.1%	0.0%	2,389	2.2%
Personnel Expenses	17,904	15.5%	698	104.1%	-0.4%	17,206	16.0%
Rent	16,174	14.0%	1,223	108.2%	0.1%	14,951	13.9%
Depreciation	1,343	1.2%	(28)	97.9%	-0.1%	1,372	1.3%
Other	12,927	11.2%	361	102.9%	-0.5%	12,566	11.7%

Note: Details of the ratio of consolidated SGA expenses to sales by major expenditure item for the 1H, 2H and full fiscal years of the past three fiscal years are included toward the end of this earnings announcement.

Total assets as of the end of the 3Q of FY18 on a consolidated basis: ¥76,560 million.

Down 2.4% compared with the end of the corresponding period of FY17.

(Comments refer to comparisons with the end of the corresponding period of FY17.)

- Current assets: Increase in accounts receivable–other. Decrease in inventories.
- Noncurrent assets: Increase in tangible noncurrent assets in line with such factors as the opening of new stores. Decrease in depreciation.
- Current liabilities: Decreases in short-term loans payable and current portion of long-term loans payable.
- Noncurrent liabilities: Decrease in long-term loans payable.

Notes:

1. Short- and long-term loans payable: ¥12,649 million. Down 33.2% YoY.

2. Inventories: Down 4.5% YoY. (Net sales growth: Up 7.0% YoY)

(Millions of yen)

	Consolidated Results FY18 3Q-End				FY17 3Q- End Results		FY17-End Results	
	Results	Share	YoY	vs. FY17-End				
Total Assets	76,560	100.0%	97.6%	112.9%	78,406	100.0%	67,799	100.0%
Current Assets	54,385	71.0%	98.3%	120.4%	55,345	70.6%	45,152	66.6%
(Inventory)	29,309	38.3%	95.5%	111.8%	30,687	39.1%	26,210	38.7%
Noncurrent Assets	22,175	29.0%	96.2%	97.9%	23,061	29.4%	22,646	33.4%
Current Liabilities	35,324	46.1%	96.9%	118.5%	36,459	46.5%	29,805	44.0%
Noncurrent Liabilities	5,737	7.5%	72.2%	81.8%	7,947	10.1%	7,012	10.3%
Total Net Assets	35,499	46.4%	104.4%	114.6%	33,999	43.4%	30,980	45.7%
Reference: Balance of Short- and Long-Term Loans Payable	12,649	16.5%	66.8%	91.7%	18,943	24.2%	13,792	20.3%

Cash and cash equivalents as of the end of the 3Q of FY18: ¥6,883 million.

Cash flows from operating activities: ¥6,894 million cash inflow compared with a cash outflow of ¥2,526 million for the corresponding period of the previous fiscal year.

- Cash flows from operating activities (Major cash inflows) : Income before income taxes of ¥8,961 million and increase in purchase liabilities of ¥4,167 million.
(Major cash outflows): Increase in notes receivable of ¥4,876 million and increase in inventories of ¥3,099 million.
- Cash flows from investing activities (Major cash outflow) : Purchase of property, plant and equipment of ¥1,823 million.
- Cash flows from financing activities (Major cash inflow) : Net increase in short-term loans payable of ¥1,860 million.
(Major cash outflows): Repayment of long-term loans payable of ¥3,003 million and cash dividends paid of ¥2,186 million.

	(Millions of yen)	
	Consolidated Results 9-Month Period of FY18	9-Month Period of FY17
	Results	Results
Cash flows from operating activities (sub-total)	9,537	1,524
Cash flows from operating activities	6,894	(2,526)
Cash flows from investing activities	(2,296)	(4,077)
Cash flows from financing activities	(3,329)	7,407
Cash and cash equivalents at the end of the term	6,883	6,617

■ Results of FY18 3Q-End Group Total Opening and Closing of Stores and FY18 Forecasts

- FY18 3Q-end Group total: Number of new stores opened: 18. Number of stores closed: 10. Number of stores as of FY18 3Q-end: 368
- Full FY18 forecast Group total: Number of new stores opened: 20. Number of stores closed: 32. Number of stores as of FY18-end: 348

	9-Month Period of FY18 Results				FY18 Forecasts					Reference Increase (decrease) from the previous forecasts
	No. of stores as of FY17-end	Opened	Closed	No. of stores as of 3Q-end	Opened			Closed	No. of stores as of the end of the period	
					1H	2H	Full Fiscal Year			
Group Total	360	18	10	368	13	7	20	32	348	
UNITED ARROWS LTD.	242	15	7	250	12	5	17	29	230	
FIGO CO., LTD.	17	1		18	1		1		18	
COEN CO., LTD.	87	1	3	85		1	1	3	85	
UNITED ARROWS TAIWAN LTD.	3	1		4		1	1		4	
Designs & Co.	1			1					1	
CHROME HEARTS JP, GK	10			10					10	

Reference: Breakdown for UNITED ARROWS LTD.

UNITED ARROWS	88	7	3	92	5	2	7	4	91	
green label relaxing	69	3		72	3	2	5		74	
SBU	61	3	4	60	2	1	3	25	39	
Outlet	24	2		26	2		2		26	

■Reference: UNITED ARROWS LTD. Results of FY18 3Q-End Opening and Closing of Stores by Store Brand

	9-Month Period of FY18 Result			
	No. of stores as of FY17-end	Opened	Closed	No. of stores as of 3Q-end
UNITED ARROWS LTD. Total	242	15	7	250
UNITED ARROWS Total	88	7	3	92
UNITED ARROWS (General Merchandise Store)	9			9
UNITED ARROWS	26	3	2	27
THE SOVEREIGN HOUSE	1			1
District	1			1
ASTRAET	2			2
BEAUTY&YOUTH	41	3		44
monkey time	2	1		3
STEVEN ALAN *	3		1	2
ROKU BEAUTY&YOUTH	2			2
H BEAUTY&YOUTH	1			1
green label relaxing	69	3		72
SBU Total	61	3	4	60
Another Edition	13		1	12
Jewel Changes	9	1		10
Odette e Odile	17	1	2	16
Boisson Chocolat	6		1	5
DRAWER	7			7
EN ROUTE	1			1
Traffic channels	2			2
THE AIRPORT STORE	6	1		7
THE STATION STORE				
Outlet	24	2		26

* STEVEN ALAN TOKYO, STEVEN ALAN OSAKA, and STEVEN ALAN KOBE are recorded as annex-type stores and are not included in the number of stores listed above.

■Reference: Details of the Opening and Closing of Stores as of FY18 3Q-End

UNITED ARROWS LTD.

Month	Stores Opened and Closed	Store name	Commercial Facility Address
Nov.	Newly opened	BEAUTY&YOUTH UNITED ARROWS MARUNOUCHI	Marunouchi Building (Chiyoda-ku, Tokyo)
	Newly opened	THE STATION STORE UNITED ARROWS LTD. ATRE KAWASAKI	atré Kawasaki (Kawasaki-ku, Kawasaki-shi)
Oct.	Newly opened	UNITED ARROWS DAIMARU KOBE MEN'S STORE	Daimaru Kobe Store (Chuo-ku, Kobe-shi)
	Closed	UNITED ARROWS KOBE MOTOMACHI	Stand-alone store (Chuo-ku, Kobe-shi)
Sep.	Newly opened	UNITED ARROWS HARAJUKU ^{*1}	Stand-alone store (Shibuya-ku, Tokyo)
	Newly opened	BEAUTY&YOUTH UNITED ARROWS CHIBA	PERIE Chiba (Chuo-ku, Chiba-shi)
	Newly opened	green label relaxing chofu	Trie KEIO CHOFU (Chofu-shi, Tokyo)
	Closed	UNITED ARROWS HARAJUKU (men's annex and women's annex) ^{*1}	Stand-alone store (Shibuya-ku, Tokyo)
Aug.	Closed	Odette e Odile ginza	MARRONNIER GATE GINZA (Chuo-ku, Tokyo)
July	Closed	STEVEN ALAN YOKOHAMA	MARINE & WALK YOKOHAMA (Naka-ku, Yokohama-shi)
	Closed	Odette e Odile kyoto porta	KYOTO PORTA (Shimogyo-ku, Kyoto-shi)
	Closed	Boisson Chocolat Funabashi	LaLaport TOKYO-BAY (Funabashi-shi, Chiba)
May	Closed	Another Edition Shinjuku Flags	Flags (Shinjuku-ku, Tokyo)
Apr.	Newly opened	UNITED ARROWS NAGOYAEGI	Takashimaya Gate Tower Mall (Nakamura-ku, Nagoya-shi)
	Newly opened	BEAUTY&YOUTH UNITED ARROWS NAGOYAEGI	Takashimaya Gate Tower Mall (Nakamura-ku, Nagoya-shi)
	Newly opened	monkey time BEAUTY&YOUTH UNITED ARROWS OSAKA	LUCUA (Kita-ku, Osaka-shi)
	Newly opened	green label relaxing nagoya takashimaya gatetower mall	Takashimaya Gate Tower Mall (Nakamura-ku, Nagoya-shi)
	Newly opened	green label relaxing morioka fesan	FESAN (Morioka-shi, Iwate)
	Newly opened	Odette e Odile nagoya takashimaya gatetower mall	Takashimaya Gate Tower Mall (Nakamura-ku, Nagoya-shi)
	Newly opened	Jewel Changes Nagoya Takashimaya Gatetower Mall	Takashimaya Gate Tower Mall (Nakamura-ku, Nagoya-shi)
	Newly opened	UNITED ARROWS LTD. OUTLET TOSU	Tosu Premium Outlets (Tosu-shi, Saga)
	Newly opened	UNITED ARROWS LTD. OUTLET SENDAI PORT	MITSUI OUTLETPARK SENDAI PORT (Miyagino-ku, Sendai-shi)

^{*1} Due to the integration of the men's annex and women's annex of UNITED ARROWS HARAJUKU, the product categories that the store carries have changed significantly. Therefore, in accordance with the Group's administrative policy for store openings and store counting, the store has been treated as a closed store and as a newly opened store.

FIGO CO., LTD.

Month	Stores Opened and Closed	Store name	Commercial Facility Address
Sep.	Newly opened	Felisi FUTAKOTAMAGAWA	Tamagawa Takashimaya S・C (Setagaya-ku, Tokyo)

COEN CO., LTD.

Month	Stores Opened and Closed	Store name	Commercial Facility Address
Oct.	Newly opened	coen Chofu Store	Trie KEIO CHOFU (Chofu-shi, Tokyo)
Aug.	Closed	coen Suzuka Store	Aeon Mall Suzuka (Suzuka-shi, Mie)
June	Closed	coen Kasukabe Store	Aeon Mall Kasukabe (Kasukabe-shi, Saitama)
Mar.	Closed	coen MARUI CITY Yokohama Store	MARUI CITY Yokohama (Nishi-ku, Yokohama-shi)

UNITED ARROWS TAIWAN LTD.

Month	Stores Opened and Closed	Store name	Commercial Facility Address
Oct.	Newly opened	UNITED ARROWS TAIPEI BREEZE XINYI	BREEZE XINYI (Xinyi District, Taipei)

* There were no newly opened or closed stores during the nine-month period ended December 31, 2017 of FY18 by Designs & Co. and CHROME HEARTS JP, GK.

FIGO CO., LTD. (April-December)

Decreases in both revenue and earnings

- Sales: ¥2.0 billion. Down 4% YoY.
- Despite difficult conditions as a result of such factors as the downturn in a portion of business and gift demand compared with projections, only a slight impact on consolidated results.

COEN CO., LTD. (February-October)

Increases in both revenue and earnings

- Sales: ¥8.2 billion. Up 13% YoY.
- Continuing to perform favorably. Plans to utilize costs in the 4Q in a bid to secure medium- to long-term growth.

CHROME HEARTS JP, GK (April-December)*¹

Business unit sales up YoY

- Sales: ¥9.1 billion. Business unit sales: Up 2.0% YoY*².
- YoY increase in both domestic and tax-free sales.

*¹ The company settles its accounts in December. However, given the impact on business results, results up to the following March are included in the scope of consolidation.

*² The year-on-year change in Group-wide sales has been omitted because the incidence of wholesale and other sales to UNITED ARROWS LTD. following the split-off makes year-on-year comparison of companywide sales difficult.

UNITED ARROWS TAIWAN LTD. (February-October)

Despite some challenges regarding sales, improvement in the gross margin. Meets earnings targets owing mainly to successful efforts aimed at reducing operating overhead expenses.

UNITED ARROWS TAIWAN LTD. opened its fourth store in October 2017.

Designs & Co. (February-October)

Despite some challenges that impacted the company's performance up to the 3Q, recovery in sales from November.

II . Progress in Implementing Priority Measures

■Progress in Carrying Out the Single Fiscal Year Management Policy of an Early Improvement in Profitability

		Nine-Month Period December 31, 2017 Results	Outlook for the Full Fiscal Year
1	Improvement in the Gross Margin	YoY Difference +0.1pt	Downturn in the 3Q attributable to a deviation in clearance sale demand Expected to come in at the targeted level for the full fiscal year (Initial target: 51.2%. YoY difference: +0.3pt)
2	Improvement in Inventory Efficiency	Inventories vs Period-End YoY 95.5%	Aiming for fiscal year-end inventories to also come below the previous fiscal year-end's level
3	Improvement in the SGA Expenses to Sales Ratio	YoY Difference (0.9)pt	Planning to invest for medium-to long-term growth in the 4Q
4	Improvement in Profitability through Online Sales Expansion	UNITED ARROWS LTD. Online Sales YoY 120.8%	Forecast continued positive impact of various measures aimed at increasing online sales



Nine-Month Period Ended December 31, 2017: Improvement of 1.0
percentage point in the ordinary income margin (7.7%→**8.6%**)

Businesses where introduction has been completed

From the spring and summer of 2014: GLR

From the fall and winter of 2016: COEN

* Also introduced into other businesses including certain brands in SBU as well as businesses within businesses.

Application

- Reduction in inventory stock-taking operations.
Minimizing the burden on sales personnel while enhancing the precision of inventories.
- Reduction in store shipping operations.
Scanning large volumes of products over a short period while also scanning products where tags are hidden with relative ease.
- Application at register counters.
Increasing customer satisfaction by minimizing the time spent at registry counters.
- Application at distribution centers (COEN only).
Reducing operating labor hours at distribution centers in order to lower distribution-related costs.

- Reduction in inventory stock-taking operations.

Average number of work hours for each inventory stock-take per store

86.5 work hours → 13.5 work hours (an increase in efficiency of roughly 84%)

(GLR reference figure)

- Reduction in store shipping operations.

Time require for shipping scanning

Reduction of 30-50%

(Source: Store survey)



Able to scan using a simple swiping motion when conducting an inventory stock-take.

- Application at register counters.

Customer waiting times at register counters when paying for an item during busy periods

Reduction by half from an average of 20-30 minutes to 10-15 minutes

(Source: Store survey)

- Reduction in overtime as a result of increased operating efficiency.

Sales personnel average monthly overtime

Cutback at GLR to roughly 78% compared with the average monthly overtime at other major businesses (FY2017)

- Application at distribution centers (COEN only)

COEN distribution-related costs as a ratio of sales

Improvement of just under 1 percentage point YoY (3Q of FY2018)



Stock inspection using RFID

In addition to the introduction of RFID, several other factors including the review of incidental store operations, the efficient allocation of personnel and reduction in the number of items are included in the improvements identified above. For information as reference data.

- Introduce on a progressive basis from regular business to outlet stores

2018 fall and winter: DRAWER, Jewel Changes, Odette e Odile, THE STATION STORE

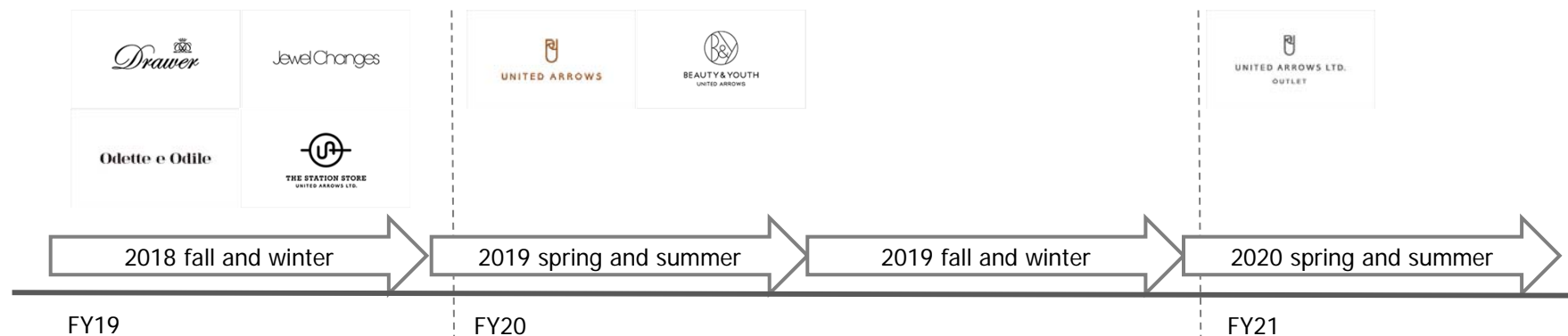
2019 spring and summer: UNITED ARROWS LTD., BEAUTY&YOUTH

2020 spring and summer: Outlet stores

* Plans to complete introduction across the Company as a whole in FY2021

- Future initiatives and anticipated results

- Efficient operations at actual stores: Address difficulties with respect to the hiring of staff through improvements in the working environment of sales personnel.
- Planned introduction of RFID reading equipment at distribution centers: Reduce distribution costs.
- Planned use and application for merchandising analysis: Improve merchandising precision and inventory efficiency by ensuring a detailed grasp of product trends.



III. Reference Materials

(Millions of yen)

	Consolidated Results Full Fiscal 2018			FY17	
	Plans	vs. Sales	%	Results	vs. Sales
Sales	153,859	100.0%	105.7%	145,535	100.0%
Gross Profit	78,786	51.2%	106.2%	74,155	51.0%
SGA Expenses	68,833	44.7%	105.9%	64,990	44.7%
Operating Income	9,953	6.5%	108.6%	9,165	6.3%
Non Op. P/L	146	0.1%	57.6%	255	0.2%
Ordinary Income	10,100	6.6%	107.2%	9,420	6.5%
Extraordinary P/L	(1,500)	-1.0%	-	(1,366)	-0.9%
Net Income Attributable to Owners of Parent	5,496	3.6%	105.9%	5,191	3.6%

■FY18: 1H Results and 2H Initial Targets

(Millions of yen)

	Consolidated Results FY18 1H			FY17 1H Results vs. Sales		Consolidated FY18 2H			FY17 2H Results vs. Sales	
	Results	vs. Sales	YoY			Forecasts	vs. Sales	YoY		
Sales	69,740	100.0%	107.2%	65,083	100.0%	85,172	100.0%	105.9%	80,452	100.0%
Gross Profit	35,708	51.2%	108.1%	33,031	50.8%	43,753	51.4%	106.4%	41,124	51.1%
SGA Expenses	32,682	46.9%	104.4%	31,316	48.1%	35,551	41.7%	105.6%	33,674	41.9%
Operating Income	3,026	4.3%	176.5%	1,714	2.6%	8,202	9.6%	110.1%	7,450	9.3%
Non Op. P/L	97	0.1%	110.8%	88	0.1%	120	0.1%	72.3%	166	0.2%
Ordinary Income	3,124	4.5%	173.2%	1,803	2.8%	8,322	9.8%	109.3%	7,617	9.5%
Extraordinary P/L	(873)	-1.3%	-	(336)	-0.5%	(818)	-1.0%	-	(1,029)	-1.3%
Net Income Attributable to Owners of Parent	1,268	1.8%	145.8%	870	1.3%	4,926	5.8%	114.0%	4,321	5.4%

Note: Initial targets for 2H have not been changed. Therefore, the totals of 1H results and 2H targets do not reconcile with full-year targets.

■FY18 Non-Consolidated Sales: 1H Results and Full-Year and 2H Initial Targets

(Millions of yen)

	Non-Consolidated Results FY18 (full fiscal year)				Non-Consolidated Results FY18 1H			Non-Consolidated Results FY18 2H		
	Forecasts	Share	YoY Increase (Decrease)	%	Results	YoY Increase (Decrease)	%	Forecasts	YoY Increase (Decrease)	%
Sales	127,539	100.0%	6,771	105.6%	57,173	3,653	106.8%	71,179	3,932	105.8%
Total Business Unit Sales	108,964	85.4%	5,254	105.1%	48,707	2,844	106.2%	60,777	2,929	105.1%
Retail	84,702	66.4%	2,093	102.5%	37,951	1,062	102.9%	46,648	927	102.0%
Online	22,925	18.0%	2,713	113.4%	10,329	1,790	121.0%	13,180	1,507	112.9%
Other (Wholesale, Other)	1,336	1.0%	447	150.4%	425	(8)	98.0%	948	493	208.6%
Outlet	18,574	14.6%	1,516	108.9%	8,466	808	110.6%	10,402	1,003	110.7%
Existing Stores YoY										
Retail + Online	103.1%				104.1%			103.6%		
Retail	100.7%				100.2%			101.3%		
Online	112.8%				120.9%			112.5%		

Notes: 1. For YoY comparisons of sales, sales of the CH business have been excluded from the sales of the previous fiscal year.
2. Initial targets for 2H have not been changed. Therefore, the totals of 1H results and 2H targets do not reconcile with full-year targets.

■ Trends in Movements in the Consolidate Gross Margin (Degree of Impact)

	FY16			FY17			FY18		
	1H	2H	Full Fiscal Year	1H	2H	Full Fiscal Year	1H	2H	Full Fiscal Year
Gross margin for the fiscal year	51.0%	50.6%	50.8%	50.8%	51.1%	51.0%	51.2%		
Gross margin for the corresponding period of the previous fiscal year	52.7%	51.3%	51.9%	51.0%	50.6%	50.8%	50.8%		
Difference	(1.8)pt	(0.6)pt	(1.1)pt	(0.2)pt	(0.5)pt	(0.2)pt	0.4pt		

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

Impact on the gross margin of UNITED ARROWS LTD. total business units	(1.2)pt	(0.8)pt	(1.0)pt	(0.5)pt	0.7pt	—	0.1pt
Impact on the gross margin of UNITED ARROWS LTD. OUTLET and other	(0.3)pt	0.0pt	(0.2)pt	0.1pt	0.0pt	—	0.1pt
Impact on UNITED ARROWS LTD. other costs	0.0pt	0.4pt	0.2pt	0.1pt	(0.2)pt	—	0.2pt
Other factors (trends in subsidiaries, consolidated adjustment, composition of sales, etc.)	(0.4)pt	(0.2)pt	(0.2)pt	0.1pt	(0.1)pt	—	0.0pt

Note: Full-year figures for FY17 have not been included because the split-off of CHROME HEARTS JP, GK in October 2016 makes including the split-off company in a breakdown of full-year figures difficult.

■ Trends in the Consolidated SGA Expenses to Sales Ratio

	FY16			FY17			FY18		
	1H	2H	Full Fiscal Year	1H	2H	Full Fiscal Year	1H	2H	Full Fiscal Year
SGA Expenses Total	45.3%	40.9%	42.9%	48.1%	41.9%	44.7%	46.9%		
Advertising Expenses	1.7%	2.0%	1.9%	2.2%	2.2%	2.2%	2.1%		
Personnel Expenses	16.6%	14.0%	15.2%	17.4%	14.2%	15.6%	17.0%		
Rent	13.6%	13.2%	13.4%	14.4%	13.7%	14.0%	14.6%		
Depreciation	1.4%	1.2%	1.3%	1.4%	1.2%	1.3%	1.3%		
Other	12.0%	10.6%	11.2%	12.7%	10.6%	11.6%	11.9%		

■ Promote the following four strategies while harnessing the strength of the Group's relationships of trust with customers

1. Establish a robust management platform

- Raise the awareness of our human resources
- Identify underperforming businesses
- Ensure a sound earnings structure

2. Expand online activities by harnessing the strengths of physical stores

- Pursue customer satisfaction from both channels
- Medium-term: Upgrade and expand inventory; strengthen advertising and promotions; review evaluation systems
- Long-term: Create new customer experiences

3. Respond to changes in the market

- Trend-conscious market → Pursue quality over quantity
- Basic trend-conscious and new basic trend-conscious markets → Expand domains with high competitive advantage

4. Expand points of contact with customers

- Expand domains (Miscellaneous Lifestyle Goods, Beauty/Health, Other)
- Increase the amount of time spent with customers (Reuse, Repair businesses)
- Expand overseas activities (Taiwan ongoing, Cross-border online sales, etc.)

■ Medium-term quantitative targets

- Ordinary income: Target average annual growth of 8% over the medium-term period
- Ordinary income margin: At least 7% in the final fiscal year of the medium-term period; work to secure double-digit ordinary income margin over the long term
- Target ROE of at least 16%, a dividend payout ratio of at least 35%, and DOE of at least 5.5% on a continuous basis over the medium-term period

■ Long-term objectives

- Online sales composition: Target 25–30%
- Inventory turnover: Target a record high
- Ratio of regular price sales: Target an improvement of at least 5 percentage points