

Fiscal 2019
Nine-Month Period Ended
December 31, 2018
Earnings Announcement

February 5, 2019

UNITED ARROWS LTD.

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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, BY, monkey time, STEVEN ALAN, ROKU, H BEAUTY&YOUTH, Odette e Odile, and DRAWER

Business Unit II: GLR, WORK TRIP OUTFITS GLR, Lurow GLR, Jewel Changes (note), THE STATION STORE

Note: Jewel Changes will change the name of the store brand to EMMEL REFINES starting from March 1, 2019.

I. Overview of Business Results for the Nine-Month Period Ended December 31, 2018

Consolidated P&L (For details, see slides 5, 8, and 9)

- Consolidated sales: YoY increase of 2.3%; Ordinary income: YoY decrease of 2.4% resulting in increase in revenue and decrease in income
- Gross margin: YoY increase of 0.1 percentage point, to 52.7%. The impact of early markdown of winter items in 3Q was offset by strong sales of women's medium and light clothing items and other items, resulting in a YoY increase in 3Q cumulative gross margin.
- SGA expenses to sales ratio: YoY increase of 0.4 percentage points, to 44.6%; YoY increase resulted from factors such as higher advertising costs at COEN CO., LTD. and higher expenses associated with distribution restructuring at UNITED ARROWS LTD.
- Income decreased YoY but exceeded forecast on a cumulative basis; scheduled to implement store refurbishment and renovation and infrastructure and R&D investments in 4Q.

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

- YoY increase of 5.9% in existing store sales (retail: up 2.0%; online sales: up 20.4%)
- By sales channel, online sales remained strong; online sales comprised 19.0% of total sales
- YoY increase in the number of customers of both existing retail and online stores (retail: up 2.0%; online sales: up 7.5%)

Inventory (For details see slide 10)

- YoY increase of 1.0% in the balance of inventory from December 31, 2017; rate of inventory growth fell below the 3Q cumulative sales growth of 2.3%, showing efficiency improvement

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

- 9M Group total: Number of new stores opened: 21; number of stores closed: 12; number of stores at 9M-end: 356
- FY19 forecast Group total: Number of new stores opened: 29; number of stores closed: 17; number of stores at FY19-end: 359

Group Companies (For details see slide 15; 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: Decreases in both revenue and income

■ Consolidated P&L Overview

Income decreased due to factors such as early markdowns on winter items, but nine-months figures exceeded forecast.

- Consolidated sales: Increases in revenue at Group companies including UNITED ARROWS LTD. and COEN CO., LTD. High online sales growth.
- Gross margin: YoY increase of 0.1 percentage point to 52.7%. → YoY increase in nine-month gross margin, despite early markdowns on winter items, etc., due to continued strong sales of women's medium and light clothing items, etc.
- SGA expenses to sales ratio: YoY increase of 0.4 percentage points to 44.6% → Resulted from temporary increase in expenses due to higher advertising costs at COEN CO., LTD. and higher expenses associated with distribution restructuring at UNITED ARROWS LTD.
- Operating income and ordinary income: Income decreased YoY but nine-month income exceeded forecast → Scheduled to implement unplanned measures designed to strengthen competitiveness and achieve medium- and long-term growth, such as store refurbishment and renovation and infrastructure and R&D investments, in 4Q.

(Millions of yen)

	Consolidated 9-Month Period of FY19				Results of 9- Month Period of FY18	
	Results	vs. Sales	YoY increase (decrease)	%		vs. Sales
Sales	117,829	100.0%	2,653	102.3%	115,175	100.0%
Gross Profit	62,149	52.7%	1,497	102.5%	60,652	52.7%
SGA Expenses	52,562	44.6%	1,700	103.3%	50,861	44.2%
Operating Income	9,586	8.1%	(203)	97.9%	9,790	8.5%
Non Op. P&L	119	0.1%	(30)	79.7%	150	0.1%
Ordinary Income	9,706	8.2%	(234)	97.6%	9,941	8.6%
Extraordinary P&L	(440)	-0.4%	538	—	(979)	-0.9%
Net Income Attributable to Owners of Parent	5,781	4.9%	34	100.6%	5,747	5.0%

■ Non-Consolidated Sales Results by Sales Channel

**Non-consolidated sales: Up 1.7% YoY. Existing store sales: Up 5.9% YoY.
Number of customers of existing stores: Up 3.5% YoY***

- YoY increases in both retail and online business unit sales
- % of total sales: Online sales 19.0%; outlet and other store sales 14.3%
- YoY increases in the number of customers of both existing retail and online sales

(Millions of yen)

	Non-Consolidated 9-Month Period of FY19				Results of 9- Month Period of FY18	
	Results	Composition ratio	YoY increase (decrease)	%		Composition ratio
Non-Consolidated Sales	97,936	100.0%	1,680	101.7%	96,255	100.0%
Total Business Unit Sales	83,903	85.7%	1,955	102.4%	81,948	85.1%
Retail	64,727	66.1%	415	100.6%	64,311	66.8%
Online	18,589	19.0%	1,549	109.1%	17,039	17.7%
Other (Wholesale, Other)	587	0.6%	(10)	98.3%	597	0.6%
Outlet, Other	14,032	14.3%	(274)	98.1%	14,306	14.9%

Existing Stores YoY
(Asterisk indicates reference data)

	Sales	Number of customers	Ave. Spend per Customer
Retail + Online	105.9%	103.5% *	100.9% *
Retail	102.0%	102.0%	100.0%
Online	120.4%	107.5% *	106.5% *

Note: Number of customers and average spend per customer data for existing retail and online stores as well as other online stores are calculated using data available to the Company through its own online stores and ZOZO TOWN stores (data accounts for approximately 80% of online sales through both venues).

Figures should be treated as references only. Year-on-year comparisons include sales data from other online stores. Accordingly, multiplying the year-on-year change in the number of customers by the year-on-year change in average spend per customer will not produce a figure approximately equal to the year-on-year change in sales.

■ Non-Consolidated Sales by Business

High revenue in both business units, YoY increase in the total of retail and online sales at existing stores

- Business Unit I: Strong performance in men's casual and all women's categories
- Business Unit II: Strong performance in all women's categories

(Millions of yen)				
	Non-Consolidated 9-Month Period of FY19			Results of 9-Month Period of FY18
	Results	YoY increase (decrease)	%	
Total Business Unit Sales	83,903	1,955	102.4%	81,948
Business Unit I	54,583	3,449	106.7%	51,133
Business Unit II	29,320	1,817	106.6%	27,502

	Existing Store Sales YoY		
	Retail + Online	Retail	Online
Business Unit I	107.6%	103.6%	121.8%
Business Unit II	103.1%	99.3%	117.7%

Notes: Total Business Unit Sales for the 9-month period of FY18 sales of businesses that were later withdrawn from.
Please refer to slide 2 for the list of the store brands included in each business unit.

■ Consolidated Gross Margin

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

Major factors that caused gross margin difference from the previous 3Q nine-month period (impact on the overall gross margin) are described below

Consolidated gross margin for the 9-month period of FY19	52.7% (52.74%)
Gross margin for the corresponding period of the previous fiscal year	52.7% (52.66%)
Change	+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	0.1pt	Gross margin of total business units: Up 0.1 percentage point YoY Despite measures to promote sale of winter items in 3Q, losses from price reductions were lower, resulting in an increase in gross margin.
Impact of movements in the gross margin of UNITED ARROWS LTD. OUTLET and other stores	0.1pt	YoY increase of 0.5 percentage points in the gross margins of UNITED ARROWS LTD. OUTLET and other stores Increase in percentage of sales from products for UNITED ARROWS LTD. OUTLET, etc.
Impact of movements in other costs at UNITED ARROWS LTD.	-0.1pt	Increase in the rate of inventory reduction in 1H compared with the previous year
Other factors (subsidiary trends, consolidated adjustments, distribution of sales, etc.)	0.0pt	Gross margin decreased due to markdowns on winter items by some subsidiaries, but the composition ratio of UNITED ARROWS LTD. OUTLET declined, cancelling out the decrease in gross margin.

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 3.3% YoY; SGA expenses to sales ratio up 0.4 percentage points, to 44.6%

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

- Advertising expenses: Increase due mainly to broadcasting of television commercials for COEN CO., LTD.
- Rent, depreciation, and others: Increase due to restructuring of UNITED ARROWS LTD. distribution warehouses (total of ¥0.4 billion), etc.

(Millions of yen)

	Consolidated 9-Month Period of FY19					Results of 9-Month Period of FY18	
	Results	vs. Sales	YoY increase (decrease)	%	Movement vs. Sales		vs. Sales
Sales	117,829	100.0%	2,653	102.3%	0.0%	115,175	100.0%
SGA Expenses	52,562	44.6%	1,700	103.3%	0.4%	50,861	44.2%
Advertising Expenses	2,749	2.3%	238	109.5%	0.2%	2,511	2.2%
Personnel Expenses	18,400	15.6%	495	102.8%	0.1%	17,904	15.5%
Rent	16,681	14.2%	506	103.1%	0.1%	16,174	14.0%
Depreciation	1,376	1.2%	33	102.5%	0.0%	1,343	1.2%
Other	13,354	11.3%	427	103.3%	0.1%	12,927	11.2%

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 ¥79,599 million on December 31, 2018, up 4.0% from December 31, 2017

(Comments refer to comparison with the balance as of FY18 3Q-end.)

- Current assets: Increases in accounts receivable-other and cash and deposits; decrease in deferred tax assets*
- Noncurrent assets: Increases in tangible fixed assets and deferred tax assets*; decrease from depreciation
- Current liabilities: Increases in accounts payable-trade and short-term loans payable; decrease in current portion of long-term loans payable
- Noncurrent liabilities: Decrease in long-term loans payable

Notes:

1. Balance of short- and long-term loans payable: ¥11,150 million, down 11.9% YoY
2. Inventories: Up 1.0% YoY (Net sales: Up 2.3% YoY)

* Changes in deferred tax assets are a result of a change in display method following a partial revision of tax effect accounting standards. FY-end results and FY18 3Q-end results in the table below are not restated retroactively.

(Millions of yen)

	Consolidated FY19 3Q-End				FY18 3Q-End Results	Composition ratio	FY18-End Results	Composition ratio
	Results	Composition ratio	YoY	vs. FY18-End				
total Assets	79,599	100.0%	104.0%	118.6%	76,560	100.0%	67,107	100.0%
Current Assets	54,186	68.1%	99.6%	118.1%	54,385	71.0%	45,878	68.4%
(Inventory)	29,600	37.2%	101.0%	119.4%	29,309	38.3%	24,799	37.0%
Noncurrent Assets	25,413	31.9%	114.6%	119.7%	22,175	29.0%	21,228	31.6%
Current Liabilities	36,231	45.5%	102.6%	133.1%	35,324	46.1%	27,213	40.6%
Noncurrent Liabilities	4,051	5.1%	70.6%	77.9%	5,737	7.5%	5,203	7.8%
Total Net Assets	39,316	49.4%	110.8%	113.3%	35,499	46.4%	34,690	51.7%
Reference: Balance of Short- and Long-Term Loans Payable	11,150	14.0%	88.1%	223.0%	12,649	16.5%	5,000	7.5%

Cash and cash equivalents as of the end of the 3Q of FY19: ¥7,268 million

- Cash flows from operating activities
(major cash inflows) : Income before income taxes of ¥9,266 million and increase in purchase liabilities of ¥4,572 million
(Major cash outflows) : Increase in inventories of ¥4,800 million and increase in notes receivable of ¥3,771 million
- Cash flows from investing activities
(major cash outflows) : Purchase of property, plant and equipment of ¥3,344 million and purchase of long-term prepaid expenses of ¥1,032 million
- Cash flows from financing activities
(major cash inflows) : Net increase in short-term loans payable of ¥7,650 million
(Major cash outflows) : Repayment of long-term loans payable of ¥1,500 million and cash dividends paid of ¥2,482 million

	(Millions of yen)	
	Consolidated 9-Month Period of FY19 Results	9-Month Period of FY18 Results
Cash flows from operating activities (sub-total)	4,791	9,537
Cash flows from operating activities	2,543	6,894
Cash flows from investing activities	(5,255)	(2,296)
Cash flows from financing activities	3,667	(3,329)
Cash and cash equivalents at the end of the period	7,268	6,883

■ Group Total Opening and Closing of Stores in Nine-Month Period Ended December 31, 2018 and FY19 Forecast

9M Group total: Number of new stores opened: 21; number of stores closed: 12; number of stores as of 9M-end: 356

- FY19 forecast Group total: Number of new stores opened: 29; number of stores closed: 17; number of stores as of FY-end: 359

	9-Month Period of FY19 Results				FY19 Forecasts					Reference
	No. of stores as of FY18-end	Opened	Closed	No. of stores as of 3Q-end	Opened			Closed	No. of stores as of the end of period	Increase (decrease) from the previous forecasts
					1H	2H	Full Fiscal Year			
Group Total	347	21	12	356	15	14	29	17	359	
UNITED ARROWS LTD.	229	15	8	236	11	9	20	11	238	1
FIGO CO., LTD.	18	2		20	1	1	2		20	
COEN CO., LTD.	85	4	3	86	3	3	6	5	86	1
UNITED ARROWS TAIWAN LTD.	4		1	3		1	1	1	4	
Designs & Co.	1			1					1	
CHROME HEARTS JP, GK	10			10					10	

Reference: Breakdown for UNITED ARROWS LTD.

Business Unit I	113	4	4	113	2	3	5	4	114	1
Business Unit II	90	9	3	96	7	6	13	5	98	
Outlet	26	2	1	27	2		2	2	26	

■ Reference: UNITED ARROWS LTD. Results of FY19 Nine-Month Opening and Closing of Stores by Store Brand

	9-Month Period of FY19 Results			
	No. of stores as of FY18- end	Opened	Closed	No. of stores as of 3Q-end
UNITED ARROWS LTD. Total	229	15	8	236
Business Unit I Total	113	4	4	113
UNITED ARROWS (General Merchandise Store)	9	1		10
UNITED ARROWS	27		1	26
THE SOVEREIGN HOUSE	1			1
District	1			1
THE AIRPORT STORE	2			2
ASTRAET	1			1
BEAUTY&YOUTH	43	1	2	42
monkey time	3			3
STEVEN ALAN*	2			2
ROKU	2	1		3
H BEAUTY&YOUTH	1			1
DRAWER	7	1	1	7
Odette et Odile	14			14
Business Unit II Total	90	9	3	96
green label relaxing	70	5	2	73
WORK TRIP OUTFITS GLR	1	3		4
Lurow GLR	3	1		4
Jewel Changes	10		1	9
THE STATION STORE	6			6
Outlets	26	2	1	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.

■ Reference: Details of the Opening and Closing of Stores by Group Company

UNITED ARROWS LTD.

Month	Opening/Closure	Store Name	Commercial Facility and Location
Oct.	Opening	UNITED ARROWS KOBE SANNOMIYA	M-INT KOBE (Chuo-ku, Kobe-shi)
	Opening	6 (ROKU) osaka	LUCUA osaka (Kita-ku, Osaka-shi)
	Opening	WORKTRIP OUTFITS GREEN LABEL RELAXING sapporo pole town	Sapporo-Chikagai (Chuo-ku, Sapporo-shi)
	Opening	Lurow GREEN LABEL RELAXING shapo funabashi	Shapo Funabashi (Funabashi-shi, Chiba)
Sep.	Opening	BEAUTY&YOUTH UNITED ARROWS TAMAPLAZA WOMEN'S STORE	TAMA-PLAZA (Aoba-ku, Yokohama-shi)
	Opening	DRAWER NIHOMBASHI	Annex Takashimaya Nihombashi S.C. (Chuo-ku, Tokyo)
	Opening	UNITED ARROWS green label relaxing lumine ikebukuro	LUMINE IKEBUKURO (Toshima-ku, Tokyo)
	Opening	UNITED ARROWS green label relaxing lumine yurakucho	LUMINE YURAKUCHO (Chiyoda-ku, Tokyo)
	Opening	UNITED ARROWS green label relaxing wing kamiooka	Wing KAMIOOKA (Konan-ku, Yokohama-shi)
	Opening	WORK TRIP OUTFITS GREEN LABEL RELAXING tenjin chikagai	Tenjin Chikagai (Chuo-ku, Fukuoka-shi)
	Opening	WORK TRIP OUTFITS GREEN LABEL RELAXING wing shimbashi	Wing Shimbashi (Minato-ku, Tokyo)
Aug.	Closure	UNITED ARROWS LTD. OUTLET YOKOHAMA	Mitsui Outlet Park Yokohama Bayside (Kanazawa-ku, Yokohama-shi)
	Closure	DRAWER NIHOMBASHI MITSUKOSHI	Mitsukoshi Nihombashi Main Store (Chuo-ku, Tokyo)
Jul.	Closure	Jewel Changes Yokohama	LUMINE YOKOHAMA (Nishi-ku, Yokohama-shi)
	Closure	UNITED ARROWS KOBE SANNOMIYA	M-INT KOBE (Chuo-ku, Kobe-shi)
	Closure	BEAUTY&YOUTH UNITED ARROWS TAMAPLAZA	TAMA-PLAZA (Aoba-ku, Yokohama-shi)
	Closure	UNITED ARROWS green label relaxing lumine ikebukuro	LUMINE IKEBUKURO (Toshima-ku, Tokyo)
Jun.	Closure	UNITED ARROWS green label relaxing lumine yurakucho	LUMINE YURAKUCHO (Chiyoda-ku, Tokyo)
	Opening	UNITED ARROWS LTD. OUTLET SHOE STOCK IRUMA	mitsui outlet park iruma (Iruma-shi, Saitama)
May	Closure	BEAUTY&YOUTH UNITED ARROWS KOBE SANNOMIYA	M-INT KOBE (Chuo-ku, Kobe-shi)
	Opening	UNITED ARROWS GREEN LABEL RELAXING mito excel	Main Building excel, Mito Station Building (Mito-shi, Ibaraki)
Apr.	Opening	UNITED ARROWS GREEN LABEL RELAXING mi:ts kokubunji	mi:ts KOKUBUNJI (Kokubunji-shi, Tokyo)
	Opening	UNITED ARROWS LTD. OUTLET HIROSHIMA	THE OUTLETS HIROSHIMA (Saeki-ku, Hiroshima-shi)

FIGO co., Ltd.

	Opening/Closure	Store Name	Commercial Facility and Location
Oct.	Opening	Felisi OUTLET KISARAZU	mitsui outlet park kisarazu (Kisarazu-shi, Chiba)
Sep.	Opening	Felisi NIHOMBASHI	Takashimaya Nihombashi S.C. (Chuo-ku, Tokyo)

COEN CO., LTD.

	Opening/Closure	Store Name	Commercial Facility and Location
Sep.	Opening	coen LaLaport NAGOYA minato AQUUS	LaLaport NAGOYA minato AQUUS (Minato-ku, Nagoya-shi)
Aug.	Closure	coen GRAND FRONT OSAKA	GRAND FRONT OSAKA (Kita-ku, Osaka-shi)
	Closure	coen Aeon Mall Dainichi	Aeon Mall Dainichi (Moriguchi-shi, Osaka)
Jul.	Closure	coen GRAND FRONT OSAKA	GRAND FRONT OSAKA (Kita-ku, Osaka-shi)
Apr.	Opening	coen JOINUS TERRACE futamatagawa	JOINUS TERRACE Futamatagawa (Asahi-ku, Yokohama-shi)
	Opening	coen outlet hirosima	THE OUTLET HIROSHIMA (Saeki-ku, Hiroshima-shi)
	Opening	coen sapporo hiraoka	Aeon Mall hiraoka (Kiyota-ku, Sapporo-shi)

UNITED ARROWS TAIWAN LTD.

	Opening/Closure	Store Name	Commercial Facility and Location
Oct.	Closure	BEAUTY&YOUTH UNITED ARROWS TAIPEI	Roadside store (Taipei City, Taiwan)

* Designs & Co. and CHROME HEARTS JP, GK did not newly open or close any stores during the nine-month period ended December 31, 2018.

FIGO CO., LTD. (April–December)

Decrease in both revenue and income

- Sales of ¥1.9 billion, down 6% YoY
- Revenue and income decreased, despite strong online sales, reflecting lower wholesale sales; identify unprofitable initiatives in FY19 toward achieving regrowth in medium term from FY20.

COEN CO., LTD. (February–October)

Increase in revenue and decrease in income

- Sales of ¥9.5 billion, up 15% YoY
- Income decreased due to strategic costs for television commercials in 1H. Implemented early markdown on winter items in 3Q, despite strong sales of women's items, by prioritizing inventory adjustment

CHROME HEARTS JP, GK (April–December)*

Decrease in both revenue and income

- Sales of ¥8.7 billion, down 5% YoY
- Revenue decreased but operating income fell only slightly due to improvement of gross margin

* 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–October)

Results were roughly in line with targets. COEN's performance remained strong.

Designs & Co. (February–October)

Opened limited-time-only stores at Isetan Shinjuku Main Store, Mitsukoshi Nihombashi Main Store, and Hankyu Umeda Main Store
Strong sales achieved with the increase of brand recognition

II. Progress in Addressing Priority Issues

History of development of directly managed online stores “UNITED ARROWS (UA) ONLINE STORE”

September 2009 : Established UA ONLINE STORE

August 2016 : Integrated the membership system of physical stores and online stores and the membership points systems of physical stores and online stores.

April 2017 : Integration and renewal of the UA ONLINE STORE and brand websites.

May 2018 : Established Nagareyama Distribution Center with an eye to operating UA ONLINE STORE.



We will continue with initiatives to make customers' shopping experience convenient and enjoyable.

- Ease of finding items that suit customers well.
- Allow customers to choose either physical stores or online stores, whichever is more convenient for them.
- Allow customers to receive purchased items either at home, physical stores, or convenience stores.

*An outline of the UNITED ARROWS Group Medium-term Vision Strategy is provided in the attachment at the end of this document.

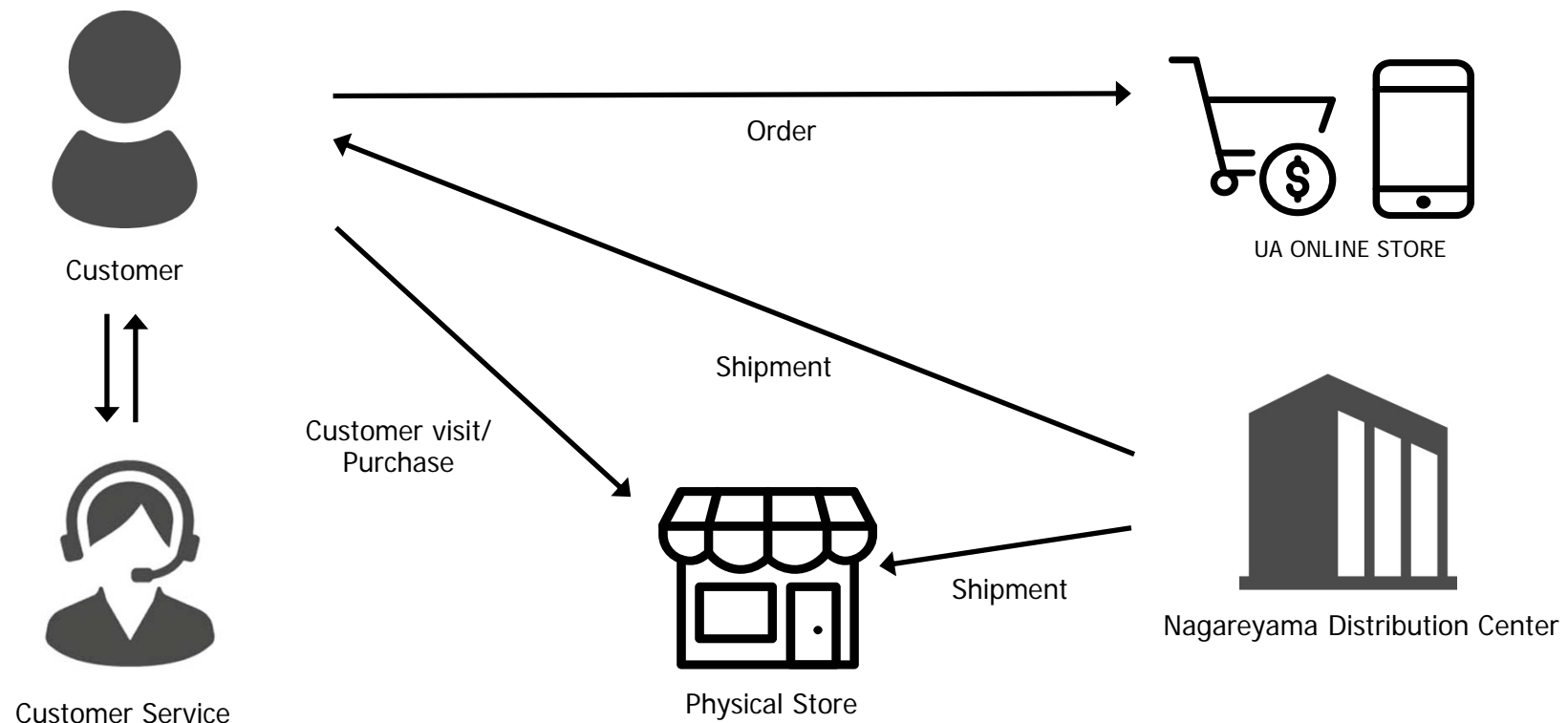
With the advancement of digital technology and spread of smartphones, customers' purchase behavior has changed to choosing more convenient purchase options at their best timing, regardless of whether purchasing is done via online shopping or offline shopping (at physical stores).



The development and operation system of UA ONLINE STORE will be changed in 2H of FY20.

- Switch to systems that allow functions to be added under the Company's own initiative
- Promote the strategy of integrating online and offline channels

■ Overall Picture of the New System



- Provide various omnichannel services and implement efficient management of freely available inventory* by carrying out shipping operations at the Company's distribution facility.
- Improve customer services by incorporating customer support in the Company.

* Freely available inventory: Inventory stored in company-owned distribution facility without having any ship-to stores assigned.

- Provision of services that seamlessly link online and offline shopping experiences
 - Customers can freely choose a purchase location and timing and method for receiving purchased items.
(online reservation of trial fitting/physical store payment, physical store payment for or receipt of purchased items at home or convenience stores, etc.)
 - Prepare a store environment to allow for smooth provision of various omnichannel services to customers.
- Provision of value experience close to that obtained through shopping experience at physical stores
 - Expansion of items eligible for shipping with alterations to clothes
 - Gift wrapping service
 - Improvement of packing quality, etc.
- Improvement of customer services
 - Customer support system of UA ONLINE STORE, which had been outsourced, was integrated into the Company's Customer Service Center.
 - Provision of a one-stop customer support system that seamlessly links online and offline shopping experiences.

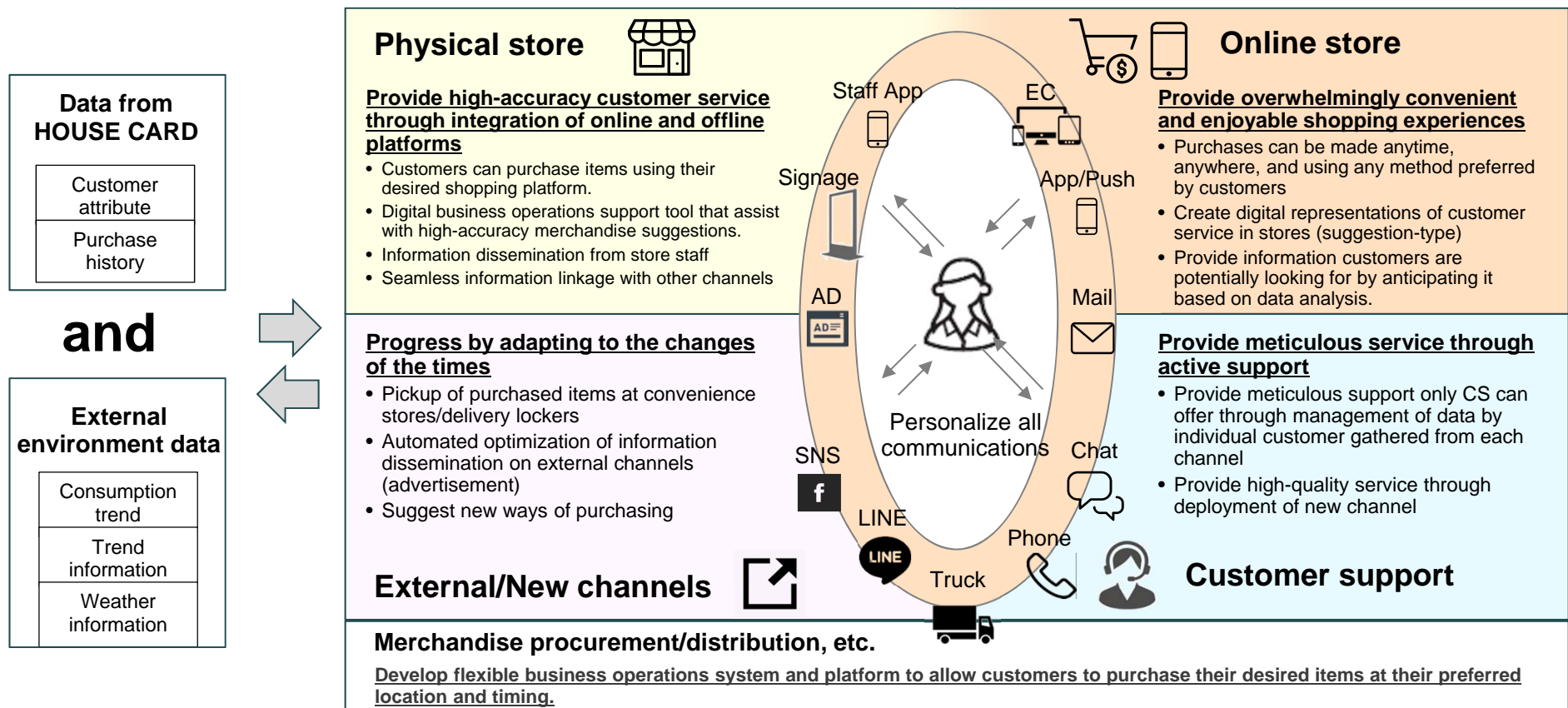
- Current scheme
 - A structure in which a fixed-rate commission on sales amount will be paid.
 - Costs increase in proportion to sales.
- New scheme
 - A structure in which certain expenses, such as a system usage fee, will be turned into fixed costs.
 - Low-cost operation through the use of the Company's own distribution center and incorporation of customer support system.



The cost structure, whereby the cost ratio will decrease with sales expansion in the future, shows promise for improvement in profitability in the medium and long term.

■ UNITED ARROWS' Sales Model Image for the Future UNITED ARROWS LTD.

- Provide high-accuracy service optimized for individual customers through multichannel platforms across online and offline channels by making effective use of data from HOUSE CARD and external environment data.
- Develop flexible business operations system and platform in terms also of infrastructure platforms, such as merchandise procurement and distribution.
- Resolve issues facing customers as a lifestyle navigator and build a deeply trusting relationship with them.



■ Positioning of UNITED ARROWS ONLINE STORE and External Online Shopping Malls

UA ONLINE STORE

Target customers

- Customers with strong loyalty to our stores
- Customers who use our physical stores and UA ONLINE STORE to suit their convenience

Roles

Further improve customer loyalty by offering integrated membership system for customers of physical stores and UA ONLINE STORE and comprehensive services that seamlessly link online and offline shopping experiences



Serve as a portal to our brand and offer the potential for customers to become House Card members

External online shopping malls

Target customers

- Customers who prefer to purchase items by comparing items from different brands
- Customers with only a few experiences of shopping with our stores

Roles

Important setting for customers to expand the point of contact with the Company

III. Reference Materials

■ FY19 Consolidated P/L Forecast

(Millions of yen)

	Consolidated FY19 (Full fiscal year)			FY18	
	Forecast	vs. Sales	%	Results	vs. Sales
Sales	156,300	100.0%	101.2%	154,409	100.0%
Gross Profit	81,250	52.0%	102.2%	79,507	51.5%
SGA Expenses	70,400	45.0%	102.0%	68,989	44.7%
Operating Income	10,850	6.9%	103.2%	10,518	6.8%
Non Op. P/L	150	0.1%	58.3%	257	0.2%
Ordinary Income	11,000	7.0%	102.1%	10,775	7.0%
Extraordinary P/L	(1,000)	-0.6%	-	(2,113)	-1.4%
Net Income Attributable to Owners of Parent	6,000	3.8%	114.3%	5,247	3.4%

■ FY19: 1H Results and Initial 2H Targets

(Millions of yen)

	Consolidated FY19 1H			FY18 1H Results vs. Sales		Consolidated FY19 2H			FY18 2H Results vs. Sales	
	Results	vs. Sales	YoY			Forecast	vs. Sales	YoY		
Sales	71,752	100.0%	102.9%	69,740	100.0%	86,079	100.0%	101.7%	84,669	100.0%
Gross Profit	36,947	51.5%	103.5%	35,708	51.2%	44,946	52.2%	102.6%	43,799	51.7%
SGA Expenses	33,915	47.3%	103.8%	32,682	46.9%	36,312	42.2%	100.0%	36,307	42.9%
Operating Income	3,031	4.2%	100.2%	3,026	4.3%	8,633	10.0%	115.2%	7,491	8.8%
Non Op. P/L	93	0.1%	95.1%	97	0.1%	134	0.2%	84.5%	159	0.2%
Ordinary Income	3,124	4.4%	100.0%	3,124	4.5%	8,768	10.2%	114.6%	7,650	9.0%
Extraordinary P/L	(338)	-0.5%	-	(873)	-1.3%	(506)	-0.6%	-	(1,240)	-1.5%
Net Income Attributable to Owners of Parent	1,503	2.1%	118.6%	1,268	1.8%	5,214	6.1%	131.1%	3,979	4.7%

* There has been no change to the Company's targets for 2H performance. Accordingly, the figures arrived at by adding 1H performance to 2H targets are not the same as those for full-year targets.

■ Non-Consolidated FY19 1H Sales and Initial 2H and Full-Year Targets

(Millions of yen)

	Non-Consolidated FY19 (full fiscal year)			Non-Consolidated FY19 1H			Non-Consolidated FY19 2H		
	Forecast	Share	YoY Increase (Decrease) %	Results	YoY Increase (Decrease) %		Forecast	YoY Increase (Decrease) %	
Sales	128,466	100.0%	109 100.1%	58,466	1,292 102.3%		71,639	457 100.6%	
Total Business Unit Sales	109,510	85.2%	(43) 100.0%	49,992	1,307 102.7%		61,411	543 100.9%	
Retail	84,458	65.7%	(785) 99.1%	38,428	476 101.3%		46,916	(375) 99.2%	
Online	23,779	18.5%	254 101.1%	11,159	829 108.0%		13,573	378 102.9%	
Other (Wholesale, Other)	1,272	1.0%	487 162.1%	404	0 100.2%		921	540 242.1%	
Outlet	18,955	14.8%	153 100.8%	8,473	(14) 99.8%		10,227	(86) 99.2%	
Existing Stores YoY									
Retail + Online	102.5%			107.1%			102.1%		
Retail	100.6%			103.2%			100.2%		
Online	109.2%			120.3%			109.0%		

* There has been no change to the Company's targets for 2H performance. Accordingly, the figures arrived at by adding 1H performance to 2H targets are not the same as those for full-year targets.

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

	FY17			FY18			FY19		
	1H	2H	Full Fiscal Year	1H	2H	Full Fiscal Year	1H	2H	Full Fiscal Year
Gross margin for the fiscal year	50.8%	51.1%	51.0%	51.2%	51.7%	51.5%	51.5%		
Gross margin for the corresponding period of the previous fiscal year	51.0%	50.6%	50.8%	50.8%	51.1%	51.0%	51.2%		
Difference	(0.2)pt	0.5pt	0.2pt	0.4pt	0.6pt	0.5pt	0.3pt		

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

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.

■ Consolidated SGA Expenses to Sales Ratio

	FY17			FY18			FY19		
	1H	2H	Full Fiscal Year	1H	2H	Full Fiscal Year	1H	2H	Full Fiscal Year
SGA Expenses Total	48.1%	41.9%	44.7%	46.9%	42.9%	44.7%	47.3%		
Advertising Expenses	2.2%	2.2%	2.2%	2.1%	2.4%	2.2%	2.4%		
Personnel Expenses	17.4%	14.2%	15.6%	17.0%	14.8%	15.8%	17.0%		
Rent	14.4%	13.7%	14.0%	14.6%	13.7%	14.1%	14.7%		
Depreciation	1.4%	1.2%	1.3%	1.3%	1.1%	1.2%	1.3%		
Other	12.7%	10.6%	11.6%	11.9%	10.9%	11.4%	12.0%		

■ Overview of the UNITED ARROWS Group's Medium-Term Vision (FY18-FY20)

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

1. Establish a robust management platform

- Reform the culture of the organization and 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, etc.)
- 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 a 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