UNITED ARROWS LTD.

Earnings Announcement Q&A for the Nine-Month Period Ended December 31, 2019

UNITED ARROWS LTD. held an earnings announcement presentation on February 6 and 7, 2020 at which the media, analysts and institutional investors were in attendance. The principal questions received and answers given during each session have been presented by category below. Certain details have been added or amended to further understanding of the UNITED ARROWS Group's performance and activities.

● Performance for the current period under review

Q. How is gross profit up to 3Q compared with the plan?

A. Cumulative nine-month period operating income is below plan by approx. ¥900 million, and the FY20 operating income forecast is below the initial plan by approx. ¥1.1 billion. Nine-month period selling and general administrative (SGA) expenses are below plan by roughly ¥1.4 billion, and the same is expected to apply to the revised FY20 SGA expenses forecast compared with the initial plan.

Q. Will there be room to cut SGA expenses further in cases where sales and gross margin drop in 4Q?

A. As for the nine-month SGA expenses, personnel expenses, variable expenses, and fixed cost are below plan by approx. ¥600 million, approx. ¥200 million, and approx. ¥600 million, respectively. The decrease in personnel expenses was due mainly to the facts that the percentage of temporary staff exceeded the plan, and that there was reduced over-time work and bonuses, while the decrease of ¥600 million in others was contributed to by reduced fixtures, repair expenses, and research and development expenses. Our continued cost reduction efforts in 4Q may allow for a further reduction of SGA expenses to some extent, in an amount yet to be determined.

Q. Despite recording heavy inventories, the revised plan appears to show the FY20 4Q gross margin exceeding the previous year. Are you considering to start selling spring clothing, instead of continuing with inventory clearance?

A. The FY20 4Q gross margin forecast in the revised plan is set below the initial plan to some extent. We expect the performance to improve overall by selling spring clothing from the end of January, while continuing with inventory clearance.

Q. What is the severity of the current excess inventory? What level of an earnings impact should I assume in the next period?

A. Inventory of the current fall and winter items exceeds approx. ¥1.5 billion as of the end of 3Q compared with last year, but has yet to reach too high a level compared to when excess inventory mattered in the past. The impact of selling at outlets and other stores in the next period on the consolidated gross margin may be relatively immaterial.

Q. What measures will you take by shifting to a strategy accepting "warm winter weather" as a given?

A. Amid a situation where spring and autumn become shorter and winter hardly gets cold enough, releasing items based on a conventional concept no longer attracts customers. We plan to develop a product lineup including a recommendation of season-less items and layered clothing, etc. without relying on coats and other heavy clothing.

Q. How are trends in online sales through major websites?

A. The following shows the breakdown of major websites. Sales at other sites are also growing.

	Net sales year-on-year	Composition	Change year-on-year
UA ONLINE STORE*	84.6%	20.4%	-6.3pt
ZOZOTOWN	121.3%	54.3%	4.6pt
Rakuten Fashion	128.5%	13.8%	1.8pt
Amazon	111.5%	3.3%	0pt

* UA ONLINE STORE was closed from September 12, 2019 to November 26, 2019.

Q. Do you expect another extraordinary loss to arise in 4Q?

A. The revised plan reflects an extraordinary loss of approx. ¥500 million for 4Q, totaling approx. ¥1.6 billion for the FY20. An extraordinary loss related to our own EC site has been recorded for 3Q instead of the 4Q plan. An impairment loss is expected to arise from retail stores, depending on the recent situation thereof.

● Development status of our own EC site

Q. What process will your EC site need to do in the future?

A. We still intend to eliminate the barrier between retail stores and online stores by switching to in-house operation of UA ONLINE STORE, while reassessing certain excess functions. We will do this process to settle the details, and move on to the next step.

● Impact of the new coronavirus outbreak

Q. What do you think the impact of the new coronavirus will be?

A. We are still unable to gather enough information to assess the impact because the operation of our local plant is suspended due to the Chinese New Year (as of February 7, 2020). More information will be provided gradually when the Chinese New Year is over. We expect no major impact on items to be delivered by the end of April as they have already been arranged, but from May and onward, we may start to be affected. We will strengthen or early information-gathering to decide on actions to be taken. The coronavirus may slow down customer traffic at retail stores, and we would wish to cover that with the EC site.

Q. What percentage is your current reliance on China's production?

A. Approx. 45% of items originally planned solely by UNITED ARROWS LTD are produced in China. Just under 60% of sales are contributed to by our originally-planned items.