UNITED ARROWS LTD.

Earnings Announcement Q&A for the Three-Month Period Ended June 30, 2020

UNITED ARROWS LTD. held an earnings announcement presentation on August 5 and 6, 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. Certain details have been added or amended to further understanding of the UNITED ARROWS Group's performance and activities.

Q. What is the full-year forecast for gross margin?

A. A decline in gross margin in the first quarter was due primarily to temporary closure of retail stores caused by the spread of the new coronavirus. As sales channels were limited to online ones, we accelerated our schedule of sales campaigns to reduce inventory of spring and summer products. As a result, gross margin experienced a sharp year-on-year decline especially in April and May. We are assuming that we will be able to engage in sales activities at retail stores in/after the second quarter. As we expect to reduce sales campaigns by controlling procurement and inventory of fall and winter products and to see a rebound from the deterioration of gross margin due to the spread of the new coronavirus in the fourth quarter of the previous year, gross margin in the second half is forecasted to be on a par or slightly below the previous year's level.

Q. To what extent have you reflected the impact of a reduction in SGA expenses in the full-year forecast?

A. While we have reflected a decline in variable costs caused by lower sales, we have not made major adjustments to fixed costs. We will adjust them while looking at the future trends.

Q. How excessive is the current inventory level? How are you going to reduce inventory?

A. Looking at the contents of inventory as of the end of the first quarter, there are large inventories of 2020 spring and summer products. Since we made procurement plans for spring and summer products before the new coronavirus pandemic, there has been a delay in reducing inventory of spring products, in particular, due to the impact of a temporary closure of retail stores. As we plan to reduce inventory of summer products through sales campaigns in/after August, we expect that there will be inventories that will be carried over to the next year. We are controlling procurement of fall and winter products to be about 80% of last year and will make additional orders depending on the situation in the future. Our product plans are based on the assumption of a warm winter and we plan to reduce inventory of outerwear, strengthen mid-to-lightweight wear, and introduce season-less products.

Q. You have not disclosed the full-year store opening plan. Are you going to control store opening or increase store closure?

A. Since a resolution on store opening is made about half a year to one year before implementing it, we opened stores in the first quarter. While no major changes have been made from the initial plan in/after the second quarter, we have made some changes. For store closure, we will continue to closely examine unprofitable stores. We have a policy to undergo the process by considering not only the profitability of each store but also the ideal form of store in each area. Since the policy has not been finalized, we have not disclosed our future store opening/closure plan at the moment. We will carefully select store opening in the following fiscal year and beyond. Location advantages are expected to change in the future due to the impact of the new coronavirus. We will consider store opening while exchanging information with leading developers.

Q. Do you plan to accelerate the schedule of in-house operation of UA ONLINE STORE in response to the new coronavirus pandemic?

A. As we expect dramatic changes in roles of retail stores and online sales due to the new coronavirus pandemic, we will be required to partially change our initial assumptions. Rather than accelerating our schedule of in-house operation, we are going in the direction of incorporating additional measures with an eye to the world after the new coronavirus.

Q. Loans payable increased sharply from the end of the previous fiscal year. Does this reflect your plan to increase funds on hand in response to the new coronavirus pandemic? Do you plan to increase commitment lines and overdraft facilities?

A. The increase in loans payable at the end of the first quarter was primarily to cover a decline in cash inflows caused by temporary closure of retail stores in April and May. As we have increased overdraft facilities, there are no concerns about funds on hand unless there is a situation where our business performance falls far below the range of earnings forecasts which have already been disclosed.