

UNITED ARROWS LTD.

Earnings Announcement Q&A for the Six-Month Period Ended September 30, 2020

UNITED ARROWS LTD. (the “Company”) held an earnings announcement presentation 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.

●Performance for the fiscal year ending March 2021

Q. According to the revised forecast, even if the impact of inventory write-downs is excluded, the gross margin for the second half declined by about one percentage point from the previous year. What is the reasoning of this forecast?

A. Although we expect sales from sales campaigns to be lower in the second half than in the first half, we have adopted a conservative plan considering the impact of the slow recovery in large cities and a decline in business demand. Other factors contributing to the decline in gross margin include that sales of previous year products at outlet stores, resulting in a decrease in the composition ratio of outlet-only products.

Q. What has been reduced in SGA expenses since the previous earnings forecast?

A. Mainly personnel expenses. Factors that were not included in the previous forecast, such as reduced hiring and adjustment of winter bonuses, are reflected.

Q. How about the excessiveness of ending stocks by posting a write-down of this year’s spring and summer products?

A. We expect a significant improvement from the end of the first quarter because we have restricted procurement of products for this fall/winter and next spring/summer. Although there is still a certain excessiveness in products for this spring/summer, we expect them to be reduced at outlets next year.

Q. I would like to know the growth and composition ratio of online store sales in the first half.

A. Online sales on a non-consolidated basis for the first half of the fiscal year ending March 2021

	Net sales year-on-year	Composition ratio within online sales	Change year-on-year
UA ONLINE STORE*	165.4%	30.9%	7.8pt
ZOZOTOWN	110.2%	49.2%	-5.8pt
Rakuten Fashion	114.9%	10.3%	-0.7pt

* UA ONLINE STORE (UNITED ARROWS LTD. ONLINE STORE) was closed from September 12, 2019 to November 26, 2019.

Q. Why is there a difference in the degree of recovery between Business Unit I and Business Unit II?

A. With the rapid trend of business style becoming more casual, the movement of products that can be used for both business and casual occasions has become slow. Business Unit II has been slow to recover compared with Business Unit I due to the high proportion of this product category in Green Label Relaxing. This was also because we finished opening EMMEL REFINES stores.

Q. How do you see sales in the second half?

A. Consolidated sales for the second half of the fiscal year are expected to be around 90% of those of the previous year. The recovery is expected to continue through the fourth quarter as product planning revisions for the new normal start from the spring/summer season next year.

Q. Looking at the monthly trend, it seems that the initial sales of fall/winter products are weak. What do you think about this?

A. UNITED ARROWS LTD. ONLINE STORE (UA ONLINE STORE) suspended its operations from September to November 2019, and therefore UA ONLINE STORE is excluded from the existing store sales from September to November of the year. During the same period of the previous year, sales at other companies' malls, such as ZOZOTOWN and Rakuten Fashion, increased significantly due to the accumulation of inventories and the strengthening of sales through sales promotion measures such as coupons. Because we have not implemented such measures this year, we recognize that other companies' malls are experiencing a reactionary effect from the previous year, while existing store sales have reached an abnormal level. For this period, we believe it is more realistic to refer to the total company sales.

● **New medium-term management plan**

Q. Please let me know if there is a selection standard for closing about 10% of the consolidated stores.

A. Stores that are not expected to recover due to the effects of the coronavirus pandemic and other reasons are targeted, mainly in large cities. We are continuing to consider the stores that may be shut and they may increase in number in the future. EMMEL REFINES stores that have already stopped further opening are included in the 10% of stores that are expected to close.

Q. What is the aim of expanding the price range of casual products downward?

A. Our policy is not to lower the overall price range, but to expand the price range downward with casual products. The aim is to attract young people who mainly use online shopping services and whom the Company cannot reach due to price.



Q. What composition ratio of online sales do you expect in the final year of the medium-term management plan?

A. On a non-consolidated basis, we expect to exceed 30% of sales.

Q. How will you utilize the human resources of retail stores for future OMO measures?

A. The Company has grown in part because of the positive feedback it has received from customers in its retail stores. As the shift to online is accelerating, we have just started various efforts to bring this advantage to online stores. We hope to leverage the Company's strengths by infusing the experience of retail store sales staff into online stores through customer service via LINE, product explanations via live streaming, and the like.

Q. What is the aim of the new executive appointment?

A. The appointment of directors was decided based on the division of roles between offense and defense. Takeda is mainly in charge of defense aimed at recovering from the coronavirus pandemic, while Matsuzaki and Kimura are in charge of aggressive measures from the perspective of mid- to long-term growth.