UNITED ARROWS LTD.

Earnings Announcement Q&A for the Nine-Month Period Ended December 31, 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. I would like to know how actual results had progressed until 3Q compared to the Company's initial plan.

A. Although sales and gross profit had been slightly lower than the initial plan, profits had been slightly higher. As the Company plans to post a valuation loss on spring and summer 2020 items in stock as the cost of goods sold in 4Q, it has maintained its full-year forecast.

Q. Regarding SGA expenses until 3Q, is there any difference in tendencies by quarter?

A. We saw a plunge in rent due to effects from the closure of stores in accordance with the government's declaration of a state of emergency in 1Q, a decline in personnel expenses owing to lower winter bonuses in 2Q, and a reduction in advertising expenses in 3Q. These are major factors.

Q. The extent of the deterioration for the gross margin has narrowed. What is the background to this?

A. The Company needed to reduce items in stock by starting discount sales at an earlier stage in spring and summer 2020 partly due to the closure of physical stores. However, as inventory procurement has been restrained for fall and winter 2020 items, effects from controlling discount sales to some extent are significant.

Q. Business performance was sluggish in January due to the spread of the new coronavirus pandemic. Do you feel that fall and winter items in stock are overabundant?

A. We see effects from the reissuance of the government's declaration of a state of emergency on sales at physical stores, but we do not think that fall and winter 2020 items in stock are overabundant. They are at a level where they can be reduced through outlet sales in the next fiscal year. It depends on whether new coronavirus infections increase or decrease and changes in consumer sentiment in the future. But spring and summer 2021 items in stock have also been well controlled, and thus there is a low possibility that inventory balances will be a major problem.

Q. Has the number of openings and closings of stores for the full fiscal year been changed drastically from the initial plan?

A. It is more or less in line with the initial plan. The number of store closings for this fiscal year is included in “closing around 10% of consolidated stores” stipulated in the medium-term management plan, and store closings will occur next fiscal year and onward.

● Changes in merchandise policies

Q. What types of new customers do you intend to acquire through the addition of products at an entry price?

A. Although customers whom we would like to acquire vary depending on each market, we would like to attract the younger generation by mainly introducing casual products. We plan to primarily handle items with a strong seasonal trend among private-label brand products, centering on online sales.

● Development of UNITED ARROWS LTD. ONLINE STORE renewal

Q. With respect to UNITED ARROWS LTD. ONLINE STORE renewal, can you flexibly add functions after the renewal?

A. Basic functions of OMO have been installed from the initial stage, and we plan to gradually add services while improving operations of stores and distribution centers. One of the objectives for the renewal this time is to allow us to independently and flexibly develop functions, and we intend to add functions through continuous developments even after the renewal.

Q. Considering that they are operated by the Company itself, will operational costs be lower than the current commission rate?

A. Even based on a conservative simulation, operational costs are expected to be lower. Despite utilization of the SaaS service, investment costs have occurred to some extent due to customization, etc. We expect a return on investment within three years.

● Inventory improvement project

Q. The target value of the project indicates a gross margin of 50%, but this level was usually achieved in the past. Why do you set it at 50%?

A. The target value calculated this time is based on the gross margin for the final fiscal year of the current medium-term management plan. Although we would like to aim for a higher level over the long term, our goal at this time is to return it to the level before the coronavirus pandemic. If an extremely higher target value is set, there may be a possibility that inventories will be narrowed down more than necessary or the cost of sales ratio will be set too strictly. Therefore, it is set at this level, and we will aim to improve it further in the future.

Q. Through this project, what inventory level do you forecast for spring and summer 2021 items and fall and winter 2021 items?

A. Within the Company, the inventory level has been investigated by comparing with spring and summer items and fall and winter ones in 2019 before the coronavirus pandemic. We aim to keep it at around 85–90% for spring and summer items and no more than 90% for fall and winter items—the Company is currently formulating a plan for fall and winter items.

● **Sustainability initiatives**

Q. Regarding consideration of non-financial objectives, how do you deal with financial effects when they appear?

A. Among equipment necessary for sales, the use of some environmentally friendly materials may increase costs. We are also considering cost reduction measures by standardizing types and sizes of equipment. We think that in terms of sustainability initiatives customer needs vary depending on each market, and intend to take initiatives according to the characteristics of each business.