

UNITED ARROWS LTD.

Earnings Announcement Q&A for the Six-month Period Ended September 30, 2021

UNITED ARROWS LTD. (the “Company”) held an earnings announcement presentation at which the press, analysts and institutional investors were in attendance. The principal questions received and answers given during each session have been presented below. Certain details have been added or amended to further understanding of the UNITED ARROWS Group’s performance and activities.

● **Performance**

Q. I would like to know about the progress of sales and profit in the first half against those that were planned.

A. Sales and gross margin fell slightly below the initial plan, but operating loss, ordinary loss, and net loss were less than initially planned due to slower growth in SG&A expenses.

Q. What happened to the reversal of the valuation loss of 1 billion yen mentioned at the 1Q Earnings Announcement Meeting?

A. At 1Q, we assumed a reversal of 1 billion yen. However, subsequent sales were weak, and the reversal is now about 0.6 billion yen in 2Q. If it continues to be absorbed towards the spring of next year, a reversal of the remaining 0.4 billion yen is expected to occur in 4Q. The reversal of the inventory valuation loss was not factored into the initial plan.

Q. What are the contents of inventory at the end of 1H?

A. Spring/summer 2020 products in stock are a little overweight, but the absolute amount is not so large. Stocks of fall/winter 2020 products and spring/summer 2021 products are low. We increased the inventory of fall/winter 2021 products, but the absolute amount is not large and there are hardly any concerns about inventory.

Q. What are the reasons for the recovery in gross margin remaining weak in 2Q?

A. Our regular business was sluggish in July and August due to the declaration of a state of emergency. Gross margin was also negatively impacted by the high discount rates we offered at discount sales and accelerated sales of products for the previous year at outlets.

● **Other**

Q. I think there has been a delay in product procurement due to China’s power problems and the spread of COVID-19 in Vietnam. How big are these impacts?

A. Deliveries of about 17% of fall/winter 2021 products might be delayed. Delays are



expected to be about one to two weeks for products made in China, and several weeks for those made in Vietnam. We are currently considering measures to address the situation. Spring/summer 2022 products might be affected more or less, but the impact is not expected to be as significant.

Q. To what extent do you estimate that gross margin will be improved by the digitization of supply chains?

A. Digitization of supply chains will increase the hit rates of products, which will lead to an improvement in gross margin. From a sustainability perspective, it will lead to a reduction in surplus inventory. Gross margin is affected not only by the digitization of supply chains but also by other factors. Because our target level is under discussion, we cannot give an answer at this stage.

Q. Have you had any responses from customers regarding your sustainability conscious actions?

A. We use environmentally friendly materials such as organic and recycled materials for some products, but by this stage there have been few cases in which the use of these materials has led directly to buying intentions. This is not a product-side action, but we are implementing a measure called “Reduce Shopping Bag Action” with the aim of reducing the use of shopping bags and conserving forests. After we revised some programs this summer, and made external announcements and gave education internally, the participation rate of customers also increased. At certain stores, 20% to 30% of customers who purchased our products participated in this activity.

Reduce Shopping Bag Action: <https://taisetsu.united-arrows.co.jp/action/>