UNITED ARROWS LTD.

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Earnings Announcement Q&A for the Nine-month Period Ended December 31, 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.

Q. How do you see 4Q sales in the revised forecasts?

A. Since late January, sales have been negatively impacted by the sixth wave of COVID-19. It is difficult to predict how long this impact will continue. Hence, we have conservatively reviewed UA LTD.'s sales forecasts for February and March, taking into account the sales situation in August and September of last year, when the state of emergency continued due to the spread of the infection. The gross margin has been almost unchanged from the initial forecast. As to SGA expenses, variable cost has been lowered in accordance with the revised forecast. For subsidiaries whose fiscal year-end is January, results for November and December, along with January trends, are incorporated. COEN CO., LTD., posted inventory write-downs in the fourth quarter, including special inventory write-downs due to the impact of the COVID-19 pandemic.

Q. At what stage and extent are COEN's inventory write-downs incorporated? With the write-downs, what are the prospects for income or loss from the next fiscal year onward?

A. In the fourth quarter, we plan to write down inventory by 0.4 to 0.5 billion yen, which is included in cost of sales. These inventory write-downs, which include special inventory write-downs due to the impact of the COVID-19 pandemic, are about twice as much as in the past fiscal years. As a result of these write-downs, the negative impact from the stocks of products for the past fiscal years will be reduced, and we expect the profit and loss situation to improve.

Q. What do you think are the challenges facing COEN?

A. In the fiscal year under review, COEN lowered prices as it was too conscious about rival companies, but it could not increase sales volume and this resulted in disappointing sales. In terms of merchandise assortment, the strategy to increase the hit rates of products by largely narrowing down the variety of products did not succeed. We plan to review the number of products in the next fiscal year. Another challenge is that it is difficult to create a standard merchandise assortment model due to differences in the size of each store. We will work to improve these points to deliver a recovery in performance from the next fiscal year onward.

Q. I would like to know about the prospects for getting back the investment made in the in-house operations of your own e-commerce site and the impact on future revenue.

A. We plan to switch to a new operating structure in March 2022, and assume that the investment payback period will be about two to three years, and that profitability will improve from the current commission rate in two years. The negative impact of the operating structure change on costs for the next fiscal year is small, and we expect sales to expand thereafter and contribute to profits during the period of the next medium-term management plan.

Q. I would like to know the year-on-year sales at major sites and their proportion to online sales.

A.

	Net sales year-on-year	Composition ratio	Change year-on-year
UNITED ARROWS LTD. ONLINE STORE	100.2%	35.1%	3.3pt
ZOZOTOWN	80.3%	42.5%	-5.4pt
Rakuten Fashion	120.6%	14.6%	3.6pt

Q. What do you plan to do to strengthen the product and the sales aspects for the recovery of physical stores?

A. In terms of the product aspect, we plan to reduce the number of items by about 20%. By reducing the number of products, we will increase the time spent on a single one and develop high-value-added products, thereby improving the ratio of products sold at a list price. In terms of the sales aspect, from the next fiscal year we will change to an organizational structure that will allow us to place more focus on sales activities to boost our sales capabilities.

Q. I would like to know about the progress made in the second year of the medium-term management plan and the current self-evaluation.

A. Gross margin has been improving to near the pre-COVID level, mainly due to the results of the ongoing inventory improvement project started in the previous fiscal year. We have almost finished identifying unprofitable businesses and stores, reduced SGA expenses, and are now poised to recover. We believe that our performance will recover when sales recover. At the present stage, although it is small in scale, new brands that are expanding mainly through online sales, such as newly launched CITEN and MARW UNITED ARROWS, are enjoying a strong performance, and we expect these brands to expand in the next medium-term plan.