UNITED ARROWS LTD. Fiscal 2014 Earnings Announcement Q&A

UNITED ARROWS LTD. held an earnings announcement presentation attended by the mass media, analysts, and institutional investors on May 8, 2014 and May 9, 2014. Details of principal questions received and answers given by category during each session are presented briefly as follows. Certain details have been expanded or modified to provide readers with a deeper understanding of the UNITED ARROWS Group's performance and activities.

Business Results for Fiscal 2014 (April 1, 2013 to March 31, 2014)

Q. UNITED ARROWS Ltd. recorded an increase in revenue and decrease in earnings for the 3Q cumulative period of FY2014. Results for the full fiscal year, on the other hand, show an increase in both revenue and earnings. Can you please explain the reasons behind these results?
A. In the 4Q of FY2014, each of the Group's businesses reported robust sales in the lead-up to the increase in Japan's consumption tax rate, which triggered a rush in demand. In addition, a strong business performance in the 4Q of FY2013 allowed us to aggressively undertake expenditures as a part of efforts to boost sales in the following period. These expenditures included the payment of extraordinary bonuses, repairs to sales and marketing facilities, and the purchase of furniture and fixtures. While certain expenditures were undertaken in the 4Q of FY2014 that were outside plans, they were not in the vicinity of the corresponding period of the previous fiscal year. As a result, circumstances made it easier to generate a profit.

Q. Please tell us about specific measures to strengthen product development capabilities.
A. The BEAUTY&YOUTH UNITED ARROWS (BY) women's category has been particular strong in the area of product development. Steps were taken to classify product categories after again analyzing the businesses customer base. BY women's was then successful in putting forward detailed styling proposals that accurately met each need. Building on this positive test case, we plan to promote the analysis of customer needs in other businesses and pursue styling proposals. Making full use of our atelier, we are meticulously preparing heavy clothing samples and working to develop original materials. Through these means, we are gradually enhancing our product development capabilities.
(Reference) Initiatives by the BY Women's category
(Page 14 of the FY2014 1Q Earnings Announcement presentation)
http://www.united-arrows.co.jp/en/ir/lib/data/p/presentation_e_2603_1q.pdfQ

Q. Has there been a change in the product purchasing structure?

A. While the percentage is small, we are making steady progress with our China Plus One strategy. As a result, the share of our business in the ASEAN region is increasing. Looking at private label products, production in Vietnam currently stands at around 10%, up from about 9% in the previous year. While overseas production will focus on China in the future, we will also consider expanding in the ASEAN region while assessing quality and cost concerns.

Outlook for Fiscal 2015

Q. How much of an operating loss are you anticipating for new businesses? Can you provide us with a year-on-year comparison for the 1H and 2H?

A. We are anticipating a combined operating loss of ¥650 million for new and overseas businesses on a consolidated basis. Of this total, we are projecting operating losses of over ¥400 million and over ¥200 million for the 1H and 2H, respectively. The FY2014 consolidated operating loss for both new and overseas businesses was ¥50 million in the 1H and ¥250 million in the 2H for a full fiscal year total of ¥300 million. On this basis, the year-on-year difference for the 1H of FY2015 is quite substantial.

Q. Please tell us about the direction of UNITED ARROWS LTD.'s selling, general and administrative expenses.

A. There is a strong possibility that SGA expenses will rise. This prospect is largely attributable to the increase in personnel expenses commensurate with the increase in employee average age. In a bid to reward sales staff, we have also implemented across-the-board pay increases these past several years. Moving forward, we plan to offset these increases in personnel and other expenses through cost control endeavors. Our policy is to hold the SGA expenses to sales ratio at its current level over the medium to long term.

Q. The full fiscal year gross margin is projected to surpass the level recorded in the previous year. What specific factors will contribute to this improvement?

A. We have implemented product price revisions from fall and winter of the previous fiscal year on the basis of improvements in product planning and development capabilities. Through successful efforts to gain the understanding of customers, we are witnessing robust sales trends. We anticipate securing an improvement in the gross margin in FY2015 through this measure as well as efforts to contain the sale of markdown items and other factors.

Q. When do you think the effects of price increases will offset the weak yen?
A. The non-consolidated gross margin is expected to fall about 0.3 of a percentage point compared with the previous fiscal year in the 1H. In contrast, the gross margin is projected to increase around 0.5 of percentage point in the 2H. While the revision of private label product prices is expected to lower the negative impact of the weak yen, the price revisions implemented for purchased CH products as well as Felisi and other items are not sufficient to fully cover the effects of the weak yen. Looking ahead, we plan to revise the prices of private label products while seeking the understanding of customers through improvement in product development capabilities.

Q. What are your forecasts for an increase in shop floor space in FY2015?
A. We are forecasting a year-on-year increase of over 6% on both a non-consolidated and consolidated basis. This figure is around 6.5% for UNITED ARROWS LTD. and close to 6.9% for the Group as a whole.

Increase in Japan's Consumption Tax Rate

Q. Are you aware of just how much demand surged in FY2014 in the lead-up to the increase in Japan's consumption tax rate?
A. When putting together our plan for FY2014, we did not factor in the effects of the increase in the consumption tax rate. The excess portion of the plan in March was ¥1.6 billion for net sales, in the higher ¥900 million-range for gross profit, and around ¥700 million for operating income. However, these figures also reflect the effects of the weather as well as our products and cannot be entirely attributed to the rush in demand.

Q. What are thoughts about corrections by the market following the rush in demand?
A. Taking into consideration a correction after the earlier rush in demand, we set our forecast for existing retail and online store sales for April 2014 at around 95% of the corresponding month of the previous fiscal year. The actual result was in fact 96.4%. Looking at weekly trends in existing retail and online store sales, results in the first through third weeks of April 2014 were down year on year. Performance from the fourth week on, however, was up. We believe that any correction to the rush in demand was concentrated over a short period. Accordingly, we have forecast growth in existing retail and online store sales from May 2014 compared with the corresponding period of the previous fiscal year. Taking into consideration the surge in demand in March 2014 as well as the fewer number of holidays, we have factored in a correction and year-on-year decline in March 2015. The downside correction in April sales is mainly applicable

to high unit price heavy clothing, business shoes, business bags, accessories, and related items. There are, however, discrepancies in the amount of increase and decrease depending on the business. GLR, for example, is showing an overall steady trend. Businesses as a whole are faring reasonably well without only limited downside.

Medium-Term Business Plan

Q. We have heard the explanation that purchasing patterns for all types of products have further diversified as a result of developments in the Omni Channel Retailing strategy under the medium-term business plan. What are your specific thoughts regarding this diversification? Moreover, you have said that policies for the current fiscal year will focus on promoting the Omni Channel Retailing strategy in order to lift the value of actual stores. In raising the value of actual stores what products and price range are you contemplating? Generally speaking, online store sales can be considered a threat to actual stores. What are the Company's thoughts on this matter?
A. The gap in awareness toward actual and online stores continues to narrow. We believe that today's customer is more attuned to the strategic use of both channels. There is clearly some meaning in customers physically calling into stores. This is because of the need to ascertain fashion trends and obtain styling proposals from staff. We launched an online service at the end of March that allows customers to arrange for the delivery of a product to an actual store where they can then try on the item. The role of the actual store is to provide customers with a point of communication with sales staff. In this manner, we can put forward styling proposals that exceed customers' expectations. In this context, we recognize the growing importance of actual stores. We have adopted the concept of "a creative merchant" as a part of our corporate slogan for the current fiscal year. Our goal is to continue to instill in our customers a sense of excitement and to harness the ingenuity and talent of all employees to consistently provide our unique brand of added value.

Overseas Business Development

Q. What are your plans for overseas sales and the number of stores going forward?
A. Rather than focus on expanding sales and profits, our priorities will lie more on accumulating store opening and operating know-how and building a business model that allows us to develop our overseas business worldwide throughout the period of the Long-Term Vision up to the fiscal year ending March 31, 2022. Naturally, profitability concerns will also underpin these activities. For these reasons, we have limited our overseas business development to the opening of stores

in Taiwan. Our goal is to open 10 stores and generate sales of around ¥3 billion.

Q. Will you also look to develop your overseas business using a wholesale format?
A. We are currently engaging in the wholesale of several business brands including Camoshita UNITED ARROWS, BY, and Another Edition. Our primary focus, however, remains the management and operation of actual stores that allow us to make full use of our competitive advantage in services, products, and store environment. Working toward this goal, we would still like to pursue wholesaling opportunities when our marketing objectives including efforts to expand brand awareness and confirm size specifications match the needs of business partners. We believe that uniquely Japanese tastes are gaining growing acceptance overseas. We also recognize that demand exists not only in Asia, but also countries in Europe and the United States. The new business ASTRAET will therefore take up the challenge of establishing a foothold in each of these regions.

New Businesses

Q. Will the negative impact of losses in new businesses continue for the foreseeable future?
A. While our forecasts indicate that new business losses will gradually narrow in the future, residual impacts are expected to be felt through to the fiscal year ending March 31, 2016. UNITED ARROWS LTD. new businesses are projected to turn a profit in the fiscal year ending March 31, 2017. The Group as a whole will still incur minor losses overseas.

Q. Please tell us about EN ROUTE projections for average spending per customer and plans for the opening of new stores. If the target market is creative men and women who reside in and enjoy life in the city, will the opening of new stores focus mainly on urban areas?
A. We believe that average spending per customer will be in the higher ¥20,000 to ¥30,000 range. In principle, we will look to open stores mainly in urban areas focusing on stand-alone stores and stores in fashion buildings.

Returning Profits to Shareholders

Q. Can we assume that a dividend payout ratio of around 30% is an ongoing goal?
A. We will continue to target a dividend payout ratio of around 30%. With the balance of our cash and deposits exceeding that of our debt, we have worked diligently to lift our dividend payout ratio from 25% to around 30%. In the future, we will consider setting levels while paying close attention to our financial position. Turning to our Long-Term Vision, we would

like to retain our goal of achieving an ROE of 20% or more by the fiscal year ending March 31, 2022 through a variety of measures including the purchase and retirement of treasury stock.