UNITED ARROWS LTD.

UNITED ARROWS LTD. First Quarter Fiscal 2015
Earnings Announcement Q&A

UNITED ARROWS LTD. held an earnings announcement presentation attended by the mass media, analysts, and institutional investors on August 5, 2014 and August 6, 2014. Details of principal questions received and answers given by category during each session are presented 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.

An Overview of Performance in the First Quarter (April 1, 2014 to June 30, 2014) of Fiscal 2015 (April 1, 2014 to March 31, 2015)

Q. What are the major factors behind the forecast decline in 1H earnings?
A. The UNITED ARROWS Group began opening new overseas stores and launching new businesses from the 2H of FY14. As a result, there were no costs related to either activity applicable to or incurred in the 1H of FY14. In FY15, however, there are plans to incur costs relating to the opening of new overseas stores and new business in both the 1H and 2H. Looking solely at the 1H, earnings are projected to decline on a comparative basis. Another factor is the upswing in personnel expenses including the impact of job offerings, salary increases, and promotions.

Q. Why are earnings anticipated to rise from the 2H?
A. In the 2H of FY14, the Company recorded anticipatory costs aimed at boosting sales in FY15 as well as other expenses including extraordinary bonuses. There are no plans to record these items in the 2H of FY15. In addition, the forecast increase in earnings in the 2H of FY15 is also based on the assumption that the negative impact on gross profit attributable to the drop in the value of the yen will settle.

Q. Actual selling, general and administrative (SGA) expenses in the 1Q of FY15 were around ¥200 million lower than plans. Can we assume that the potential exists for costs to be controlled by approximately ¥800 million on a full fiscal year basis?
A. During the previous period, efforts were made to hold down costs up to March 2014, when a rush in demand prior to Japan's consumption tax rate hike was expected. As a result, fixed costs were held down by around ¥1,000 million. The Group as a whole will work in unison to control costs in FY15 should concerns arise that forecasts for sales and gross profit will not be met for FY15.

Q. What are your thoughts on results of summer clearance sales?

A. We feel that customers' perceptions and approach toward clearance sales changed dramatically this year. The start of summer clearance sales are broadly divided into two distinct periods: from the end of June and from the middle of July. Purchasing trends for clearance sales that began around the end of June were sluggish. This was largely attributable to the impact of the prolonged rainy season and poor weather conditions including a large-scale typhoon. Consumption patterns indicated that customers focused mainly on items that could be immediately worn. As a result, clearance sales trends were substantially affected by temperature levels. We presume that activity during clearance sales periods were also impacted by customers' responses to sales initiatives and the recent gradual change in clearance sale discount rates. Customers appeared to hold hopes that prices would fall a little further and held off on making purchases. Clearance sales that began from the middle of July were robust. This largely reflected the end of the rainy season and the rise in temperatures which helped to motivate customers to make purchases during clearance sales. Meanwhile, businesses that pushed forward the early sale of fall and winter items are also experiencing strong results. As a result, we are seeing customer needs polarize around this time. Our DRAWER brand business decided to run its mid-summer item clearance sales in conjunction with the sale of winter coats. This triggered a number of phenomena and trends including the robust sale of melton coats. Another phenomenon was the aforementioned market polarization. We saw customers seeking items that they could immediately wear. If the item was considered of sufficient value, we also saw the parallel need and purchase of items for use in the future. Taking these trends into consideration, and looking at the next period, we will strike a balance between proposals that match actual demand and proposals that look to the future. Moving forward, we will work diligently to provide customers visiting our stores with a consistently fresh lineup and products that offer a new discovery.

Q. What is your pricing policy for fall and winter items?

A. Based entirely on the premise of increased product quality, UNITED ARROWS LTD. is planning to raise the prices of between 40 and 80% of its private label brands by an average of around 10%. After raising the prices of its fall and winter items in 2013, COEN CO., LTD. was unable to gain the support of customers. As a result, the company returned the prices of its products to previous levels during this year's spring and summer seasons. With strong sales trends, COEN CO., LTD. plans to maintain this pricing policy for the fall and winter seasons.

Q. What are the reasons for the increase in inventories as of the end of the 1Q of FY15?
A. Projecting a rush in demand in the lead-up to Japan’s consumption tax rate hike this year, we took steps to upgrade and expand our inventories of spring items. While sales in March were robust, difficulties in moving spring items during summer clearance sale periods as well as weak summer clearance sale activity reflecting weather conditions during June and July and changes in customer motivation toward clearance sales led to an increase in the balance of inventory as of the end of the 1Q of FY15. In addition to the sale of products through regular stores, we plan to progressively reduce this residual inventory through a variety of initiatives including the use of outlet stores and events.

Q. What were the reasons that led to the drop in outlet store revenue?
A. There are main reasons for the drop in outlet store revenue. The first is the decline in the number of customers visiting stores. After the consumption tax rate hike, gasoline prices have continued to hover at a high level. At the same time, the cost of expressway tolls has also risen. These and other factors have led to a decrease in the number of customers visiting outlet stores. The second reason is the impact of initiatives aimed at promoting sales at regular stores. Customers have been less likely to take the trouble of paying a visit on an outlet store, preferring to take advantage of discount campaigns at actual stores and to wait for the special offers available through limited-time sales at online stores. Looking ahead, we recognize the critical need to push forward attractive measures that will convince customers to visit outlet stores and to reinvigorate outlet store activity.

Q. After the increase in the consumption tax rate, trends remains strong during April and May. From June and July, however, activity has been weak. What are your thoughts on customers’ consumption patterns after the consumption tax rate hike?
A. While sales exceeded forecasts during April and May, results have been slightly below plans for June and July. We believe this reflects such factors as the prolonged period of clearance sales and changes in customers’ motivation toward the progressive increase discount rates. As mentioned, measures aimed at promoting sales as well as weather conditions have significantly influenced sales in June and July. The review of these factors is an issue for the next period. Meanwhile, there is a clear sense that customers are adopting an increasingly discerning approach toward prices following the consumption tax rate hike. This may also have affected sales during June and July.

New Businesses

Q. What impact did new businesses have on profits in the 1Q of FY15? What will be the impact of the decision to hold down the opening of new business stores on full fiscal year results?
A. Overseas expansion and new businesses had a collective negative impact on profits of around ¥150 million for the 1Q of FY15. This was essentially in line with plans. The decision to hold down the opening of new stores in the fall is expected to have a negative impact on sales forecasts and profits at the store level of approximately ¥500 million and between ¥40 and ¥50 million, respectively. In contrast, the increase in new store opened by COEN CO., LTD. and the company's decision to cancel the closing of stores is expected to boost sales and profits. This is projected to essentially offset the negative impact of the decision to hold down the opening of new business stores on a consolidated basis.

Q. What is the rationale behind holding down the opening of new business stores?
A. In those cases where sales continue to fall below plans after opening a new store, or the decision is made that current merchandising strategies are insufficient to secure success after gleaning feedback from customers, we look to put in place the appropriate remedial measures as quickly as possible. Based on this approach, we have decided to temporarily hold down the opening of new stores. We plan to resume new store opening activities after we have had the chance to formulate a proper merchandising strategy.

Q. Do you feel that the decision to hold down the opening of new stores will negatively affect your relationships with developers?
A. We do not see this as a problem at this stage.

Q. What were the reasons behind sales growth in each business falling below expectations?
A.
ASTRAET
After opening the UMEDA HANKYU store as well as the NAGOYA LACHIC store, the ASTRAET brand business opened a stand-alone store in Aoyama, Tokyo. With these initiatives, positive steps have been taken to finally establish a more comprehensive and worldly concept and image for this new business. This process is a factor in the continued low visibility of profile of the brand and as a result current weak trends in sales. ASTRAET products are also handled at certain UNITED ARROWS stores and are attracting favorable comments from customers who are highly sensitive to fashion. We do not believe that product considerations are a major issue for this brand. Finding the ideal area and location to open new stores is a far more

pressing concern. As a result, we have decided to temporarily hold off on opening new stores. Looking ahead, we will work to capture customers through the network of the three existing stores as well as UA stores that handle the ASTRAET brand. At the same time, we will pursue the policy of carefully screening potential locations for the opening of new stores.

BOWS & ARROWS

While this business was launched with the department store channel and men's market in mind, the age range of customers is broader than the Company's initial estimation and a gap has emerged between this business's actual and anticipated customer base. The potential of this market is considered to be high. Before accelerating the pace of new store openings, we believe it is important that we close this gap. We will take careful steps to accurately grasp the attributes of the market and plan to resume opening new stores after reviewing merchandising strategies.

Boisson Chocolat

After conducting test marketing through Odette é Odile online stores, and establishing the market potential of products at this particular price range, steps were taken to open independent stores. However, with initial marketing conducted through online stores, we are yet to fully grasp the specific attributes of customers engaging in purchases at actual stores. This spring, stores were opened in the Marunouchi Building, atre Kichijoji, and LaLaport TOKYO-BAY, locations that have considerably different attributes. Moving forward, we will work to clarify the principal target customer base. We will then make the necessary decision to revise the merchandising strategy to properly match the target market.

Other

Q. Why has COEN CO., LTD. stepped up the opening of new stores? Will there be any change in the company's new store opening policy from the next period and beyond?

A. COEN CO., LTD. returned the price range of its products to previous levels from the spring of this year gaining the support of its customers. As a result, the company experienced a pickup in sales. COEN has continued to achieve its sales plans since February 2014 with existing store sales exhibiting a positive rebound. At this point, the company has decided to recommence the opening of new stores, which it had held in abeyance and to cancel the planned closing of stores. While specific plans for the next period are yet to be determined, the potential exists to promote to opening of additional stores in a bid to secure further growth.

Q. What if anything has come to your attention after the opening of stores in Taiwan?

A. After opening stores in Taiwan, we came to realize that there was a difference between each country's approach toward seasonal merchandising. It also became abundantly clear that general visibility and profile was low. From a merchandising perspective, we have made modifications to more closely align products to Taiwan's seasons from this fall and winter. Moreover, the response to products that customers can only acquire from the Company's stores has been extremely positive. Working together with the New Balance brand, we have been able to undertake the simultaneous launch of products in Taiwan and Japan to celebrate our 25th anniversary. This and other initiatives have been incredibly popular. At this stage, demand has not centered around UA and BEAUTY&YOUTH UNITED ARROWS products that have been arranged for the Taiwan market, but essentially the same products marketed in Japan. Accordingly, we are taking steps to improve our product lineup to meet this current trend. The Company's store in Taiwan is well known to the well-to-do in Taiwan as well as fashion-conscious Taiwanese who have purchased items while in Japan. While our brand name is widely known among this customer base, which is extremely sensitive to fashion, our visibility and profile remains low among general customers. To address this issue, we are considering a variety of initiatives including the use of SNS.

Q. What progress have you made with the O2O strategy and what have been the results?
A. We have worked to expand the link between our inventory distribution information system* and online store sites since the previous fiscal year. From May of the current fiscal year, we established a link with i LUMINE in May and Amazon in July. While operations are running hot and cold, depending on each site, we are seeing sales growth rates increase since implementation. In addition, online sites are helping to raise brand awareness and to project a more worldly view. We recognize that the Internet is evolving into the principal communication and information tool depending on the generation. As a result, steps are being taken to place online visual images as well as styling proposals by sales personnel as a part of efforts to better express the worldliness of our brands. By providing information on the sizes of products and status of inventory at actual stores, we are applying the Internet as a tool that will encourage customers to visit real stores.

* For details regarding efforts to link online store sites with the Company's inventory distribution status information system, please refer to the special feature "O2O: Challenges and Evolution toward Becoming a Leading Company' on pages 22 and 23 of the 2014 Annual Report. (English report scheduled for disclosure in September 2014)
http://www.united-arrows.co.jp/en/ir/lib/data/annual_report.html