UNITED ARROWS LTD.
First Quarter Fiscal 2016 Earnings Announcement Q&A

UNITED ARROWS LTD. held an earnings announcement presentation on August 5, 2015 and August 6, 2015, at which the media, analysts, and institutional investors were in attendance. Details on the principal questions received and answers given by category during each session are presented as follows, with certain details expanded or modified in an attempt to provide readers with a deeper understanding of the UNITED ARROWS Group's performance and activities.

About Business Results in the First Quarter (April 1, 2015 to June 30, 2015) of Fiscal 2016 (April 1, 2015 to March 31, 2016)

Q. How did operating income in the 1Q of FY16 compare with plans?
A. Operating income in the 1Q of FY16 exceeded plans by around ¥400 million.

Q. Existing store sales are exhibiting an upward trend. What do you see as the main factors behind this improvement?
A. Both retail and online existing store sales increased during the 1Q of FY16. The rate of growth was especially high for online sales. Successful efforts to reduce sales opportunity loss by providing sufficient inventories and to boost sales of popular items by strengthening advance order event activities contributed significantly to this result.

Q. The number of retail purchasing customers is slow to recover. What measures are you taking to address this issue?
A. We have put in place a variety of measures aimed at increasing the number of retail purchasing customers. One such measure is the introduction of an 8-season merchandising policy under which each year is broken down into eight season segments. This policy has already been successfully implemented in the UNITED ARROWS green label relaxing (GLR) business, where the ratio of SPA activities is high. Positive steps are being taken to enhance the fresh appeal of stores by strengthening the introduction of new products in the lead-up to the second half of the spring and summer seasons. As a result, sales during June and July have been robust. Another measure is the review of product prices. Thanks largely to the measured approach we have taken and efforts to incorporate the perspectives of customers when setting product prices in each business, we are seeing a gradual recovery in the number of customers. Turning to

the UNITED ARROWS (UA) business, we increased the share of purchased products in order to better attract and appeal to customers and increased the variety of popular and collaboration products. While the issue of gross profit remains pending, we are first working to increase the number of retail purchasing customers by offering a strong sense of pleasure.

Q. Can you tell us about trends in each business?
A. Looking at UNITED ARROWS LTD., trends in the CHROME HEARTS (CH) business are strong. Existing store sales climbed 25.6% compared with the previous year due mainly to continued and vigorous purchasing by affluent customers and overseas tourists visiting Japan. Even with the revision of prices in June, there was very little downturn in purchasing trends. Existing UA store sales also increased 2.2% compared with the previous year. While GLR struggled slightly at the start of spring, we are seeing a pickup from the second half of the season. Results at our subsidiary, COEN CO., LTD., are healthy.

Q. What impact has changes in fashion trends had on 1Q results? What is your outlook for the fall and winter seasons and beyond?
A. Focusing mainly on women's casual items, tops with volume as well as trendy items such as wide leg pants, gaucho pants, and long cardigans were robust. Meanwhile, there are signs that certain customers are growing tired of the emphasis placed on casual trends. We are holding out hopes that this will lead to an improvement in dressy items during the fall and winter seasons. For men, trends in knitwear are strong. This is expected to continue into fall and winter. Cool Biz items were also generally firm. Compared with the past, trends in short-sleeved shirts and short pants are slow with sales picking up from clearance sale periods. We believe that this reflects the growing need to purchase items for immediate use.

Q. How would you assess the peak selling period of July? Did the Company perform well or poorly during clearance sales?
A. During the current period, we have moved away from the progressive markdown approach adopted in the past. In order to reduce inventories over the short term, we have set discount rates at a higher level from the start of clearance sale periods. In ensuring that we learn from the mistakes of the previous year, we did not introduce additional clearance sale products. It is therefore true that we could have increased sales if we had had more inventory. Nevertheless, by bringing forward the introduction of new products,

the share of regular price sales in July has surpassed the level reported last year by roughly 5 points. We will evaluate this year's clearance sale performance after taking into consideration trends in August.

Q. Has there been any change in customers' mindsets toward clearance sales?
A. While interest in clearance sales by women has increased, today's customer is far more attuned to the strategic use of both actual and online stores. Under these circumstances, activity may appear a little lackluster if we look solely at trends at actual stores. Against this backdrop, we are vigorously rolling out new products in combination with clearance sale products. As a result, customers are continuing to purchase products that they have identified as essential.

Q. How are fall and winter items faring?
A. With the introduction of late summer and early fall items from July, the share of regular price sales has increased compared with the previous year. Without a doubt, customers are looking for fresh items. Women's fall items and especially khaki, beige, and brown-colored products are off to a good start. Turning to specific items, blouses and knitwear with highly appealing designs as well as felt hats are already moving extremely well.

Q. What factors have contributed to the change in non-consolidated gross margins?
A. Gross margins have fallen slightly below plans. A major factor in the decline in the total business unit gross margin compared with plans was the change in the sales composition of purchased products and private label brands. While efforts to curtail discount campaigns and adjust the determination of markdown rates helped to push the gross margins for such channels as outlet stores above plans, these endeavors were unable to offset the downturn in the total business unit gross margin. On a year-on-year basis, the total business unit gross margin declined 1.9 points. In specific terms, the change in the sales composition of purchased products and private label brands, together with the increase in sales of well-known brands with high cost to sales ratios included in purchased products, pushed down the gross margin by around 0.6 of a point. Also, the impact of mark down losses and the effects of movements in foreign currency exchange rates are estimated to have lowered the gross margin by about 0.4 and 0.9 of a point, respectively.

Q. What are your thoughts on the impact of foreign currency exchange rates on the

gross margin in the future?
A. We are projecting the yen / US$ rate to hover around ¥125 during the current period. So long as the rate remains below ¥130 then we are confident in our ability to respond accordingly. During the previous period, prices were raised due to the excessive emphasis placed on foreign currency exchange rate movements and the impact on gross margins. This led to an increase in markdowns. In the fiscal year ending March 31, 2016, we will carefully assess the balance between the value of our products and their prices. Our policy is to secure gross profit by keeping the total amount of purchases at an appropriate level and making every effort to avoid discount sales.

Q. What progress have you made toward reducing inventory, an issue from the previous period?
A. As of the end of the previous period, inventory comprised FY15 period inventories, past inventories, and products for which no sales period is set. The share of each type of inventory was 40%, 40%, and 20%, respectively. The balance of past inventories was around ¥2.0 billion higher than the usual level. In the fiscal year ending March 31, 2016, we are working vigorously to control purchases and to reduce past inventories. In this manner, we are holding down the amount of inventory. As of the end of the 1Q of FY16, the breakdown of inventory was around 40%, 10%, 30%, and 20% for current year spring and summer products, products for sales during the coming fall and winter seasons, past inventories, and products for which no sales period is set, respectively. Successful efforts have also been made to decrease the amount of surplus past inventories to approximately ¥1.2 billion. While we have not collated detailed data as of the end of July, the year-on-year increase in Companywide inventory on a non-consolidated basis was about 7%. This was down from the year-on-year increase as of the end of the 1Q of FY16 of 11%. Of this balance, we have kept the balance of spring and summer products for the current year to around 93–94% compared with the previous year.

About Trends in Online Store Sales

Q. Tell us about online store sales for the 1Q of FY16 by site.
A. In the 1Q of FY16, almost all sites recorded an increase in revenue. On a year-on-year basis, ZOZOTOWN sales climbed 13–14% and comprised around 55% of total online store sales. UNITED ARROWS LTD. ONLINE STORE sales increased 18–19% compared with the previous year and accounted for approximately 24% of total

online store sales. Turning to MAGASEEK and i LUMINE, sales surged 52–53% and 36–37%, respectively, with each making up more than 4% and about 4% of total online store sales.

Q. Looking at online store trends, we are seeing substantial fluctuation in year-on-year sales depending on the month. What factors have caused this fluctuation?
A. This substantial fluctuation can largely be attributed to the impact of the volume of inventories. The rate of sales growth was especially low in July due to the understocking of clearance sale inventories. We expect to see sales stabilize as we make a proper assessment of the optimal level of inventory from the fall and winter seasons.

Q. What are your thoughts on trends in online store sales going forward?
A. Online store sales comprised 12.0% of non-consolidated sales in FY15. We are projecting this share to reach 12.2% in FY16. Compared with a rate of growth of 7.6% for Companywide non-consolidated sales, online store sales are projected to increase by a rate of 9.0%.

Q. What plans, if any, do you have to implement new online store initiatives in the future?
A. We plan to implement a variety of initiatives. But first, we will look to increase the allocation of inventories to online stores in order to minimize sales opportunity loss. The number of customers who purchase clearance sale products through online stores is increasing. Based on this trend, we believe that the potential of online stores to contribute to the Company’s performance is extremely high with respect to clearance sales. We will therefore increasingly incorporate online stores as we reconsider our approach toward clearance sales.

Q. Will there be a change in your approach toward actual and online stores in the future?
A. Providing convenience to customers will remain the underlying principle behind our approach toward both actual and online stores. There is still a large number of services that has not been introduced at online stores. By increasing the level of convenience, we expect that the weight placed on online stores will gradually increase. However, we recognize that growth in online store sales is very much a by-product of our actual stores. We will look to ensure that face-to-face customer service and styling proposals continue to spill over into online stores. The selection of where and through what

medium a product is sought is best determined by each customer’s needs. It is important that we increase the number of customers by strengthening customer service at actual stores.

About Tax-Free Sales

Q. What was the level of CH contribution to tax-free sales in the 1Q of FY16?
A. At approximately 63%, CH continued to contribute a high share of tax-free sales in the 1Q of FY16. Meanwhile, other business tax-free sales are also increasing with trends advancing at 2.5 times the pace of FY15.

Q. Other than conversational English training, are there any other initiatives that target visitors to Japan from overseas?
A. In addition to installing point-of-purchase (POP) notices and stickers to clearly identify to customers which stores sell tax-free goods, we have simplified tax-free procedures. Moreover, we have introduced tools that provide details of tax-exempt sales and other conditions in several languages, and are promoting sales through social networking services (SNS), which are particularly effective in Asia, as the use of smartphones in the region is becoming increasingly widespread.

Progress on Addressing Priority Issues

Q. What results are you currently seeing with respect to your review of merchandising and product lineup policies?
A. In the past, we have seen a buildup of inventory at the start of the spring period. As a result, there has been a tendency for spring items to be left over at the time of summer clearance sales. Taking this trend as well as the recent prolonged nature of the summer season into consideration, we have broken down the year into eight season segments and then taken steps to reduce the number of unnecessary items and to carefully assess the required level of inventory. Based on these endeavors, we have contained the introduction of product at the start of the spring season to around 90% of usual levels and put in place a system that enables the additional release of popular items toward the latter half of the season. This initiative has been especially successful in the GLR business, where the ratio of SPA activities is high, and has led to a high rate of growth in the second half of the season.

Q. Does this 8-season merchandising policy also fit the select shop format?
A. We believe that the 8-season merchandising policy is also compatible with other businesses with a higher purchased product ratio and for private label brands that are easier to control internally across a variety of areas including delivery. As a result, we are considering introducing the concept to other businesses in the future. While purchased products present certain difficulties, we are looking at opportunities while undertaking the necessary adjustments together with suppliers.

Q. Are the merits and demerits of 8-season merchandising clearly visible?
A. This is the first fiscal year in which we have adopted the 8-season merchandising policy, and as such we are yet to definitively clarify any merits and demerits. We are experiencing robust results in the GLR business, where steps were taken to strengthen the introduction of products in the second half of the season. We put this down to one positive achievement under the 8-season merchandising policy. Looking back, however, we do believe that a slightly more aggressive approach to inventories of top-selling products was warranted. After taking into consideration trends this year, we will reconsider the composition of inventories for next season.

Q. What progress have you made regarding a review of pricing strategies?
A. We see room for improvement in the setting of prices for lightweight garments. Even with a slight increase in the cost of sales ratio, we believe there is a need to defer any change in prices and to secure profits by raising the ratio of regular price sales. For heavy clothing, we are drawing on the assessments of customers regarding the balance between price and value. We are looking to increase the prices of those products that are deemed to be of value. While prices will rise in overall terms, our policy is to adopt a cautious approach toward the setting of product prices.

About the Future

Q. What are your thoughts on gross profit from the 2Q and beyond?
A. Gross profit in July was lower than plans. This largely reflected efforts to reduce inventories in July. Initial plans called for gross profit in the 2Q to fall around 0.5 of a point from the previous year. Currently, this decline is projected to come in at approximately 1 point. Trends in fall and winter items are firm. We will first look to secure sales and then work toward achieving our plan for gross profit.

Q. How will movements in foreign currency exchange rates impact results in the 2H and beyond?
A. Foreign exchange rate levels are currently within the scope of estimates identified at the beginning of the period. There is little or no change from initial plans regarding the setting of product prices. We will adopt a cautious approach with respect to each item, and set price levels based on customers' assessments of value. Even with a slight increase in the cost of sales ratio, our policy is to raise the ratio of regular price sales.

Q. Selling, general and administrative (SGA) expenses have fallen ¥180 million in the 1Q of FY16 compared with plans. Can we assume that trends will continue along this level for the full fiscal year?
A. SGA expenses may possibly decline a little further compared with plans if sales trends remain in line with plans. Businesses that exceed sales plans do not show any significant increase in SGA expenses. In contrast, businesses that have not achieved plans tend to hold down SGA expenses in order to secure profits. As a result, there is every likelihood that SGA expenses will decline slightly on a Companywide basis.

Q. I would like to hear more about changes in the opening and closing of stores. Have you been able to make a decision to resume opening ASTRAET stores?
A. We have not yet made the decision to open more ASTRAET stores. In this instance, however, we received an extremely favorable proposal which triggered the decision to open a new store. After opening the new store, we will assess trends and reconsider plans for the future. Changes in the opening and closing of Another Edition and Odette e Odile stores are within the usual scope of business activities. We have withdrawn plans to close COEN stores due to robust performance.

About Subsidiary Companies

Q. Please tell us about existing COEN store trends in the 1Q of FY16 and conditions during the three-month period from May to July.
A. During the 1Q of FY16, the three-month period from February to April 2015, existing store sales were strong, climbing 11% compared with the corresponding period of the previous fiscal year. Existing stores sales remained robust in May 2015, increasing 19–20%. In contrast, results declined 7% in June and were slightly weak in July, coming in at roughly the same level as the corresponding period of the previous fiscal year. In the market in which COEN operates, other companies tend to begin

clearance sales at an early stage. Special limited time offers are also a frequent occurrence. Because COEN has not followed this pattern, results have become slightly weak.

Q. Please tell us about trends in Taiwan stores and the future outlook.
A. We are yet to fully address market trends in Taiwan. Nevertheless, UA menswear is steadily attracting increased support. Looking ahead, we will adopt a medium- to long-term policy while making the necessary adjustments to address climate, seasonal, product size, and other conditions.

Other

Q. Can you again confirm your policy toward the use of treasury stock?
A. There is no change to our existing policy. We will keep in mind the use of treasury stock where we believe a capital alliance, M&A, or other such initiative will help to increase our corporate as well as stakeholder value. In the event that no such opportunity arises for a certain period, we will consider the retirement of treasury stock.