# UNITED ARROWS LTD.
## First Half Fiscal 2017 Earnings Announcement Q&A

UNITED ARROWS LTD. held earnings announcement presentations on November 4, 2016 and November 7, 2016, at which the media, analysts, and institutional investors were in attendance. 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 Half (April 1, 2016 to September 30, 2016) of Fiscal 2017 (April 1, 2016 to March 31, 2017)*

**Q.** Existing store sales in the UNITED ARROWS (UA) business are weak. What issues do you feel need to be addressed? Is it because of the difficulties involved in distinguishing products because of their added value in the high-price product range?

**A.** Within the UA business, the BEAUTY&YOUTH (BY) brand is exhibiting growth. The UA brand, on the other hand, is encountering harsh operating conditions. Customers are adopting an increasingly severe approach toward high-priced products and as such it is becoming all the more difficult to properly clarify the balance between price and value. H BEAUTY&YOUTH store that caters to the fun-loving and casual needs of young adults are showing little or no customer resistance with respect to price. While the size of this market is currently small, we do see considerable potential.

**Q.** How will you use the positive results in the green label relaxing (GLR) business as an example in other areas?

**A.** Any attempt to duplicate the positive results in the GLR business will be made in line with the specific attributes of each business. For example, we will endeavor to roll out products that accurately match the needs of each customer demographic for each season while also putting forward proposals that anticipate seasonal needs with the understanding that the UA business should play an important role in driving seasonal trends. Drawing on the significant appeal of catalogs and their use as a positive example in the GLR business, we will move away from our traditional focus on images in the BY brand and employ a format that is more likely to lead to actual sales. We will also adopt a more flexible approach toward seasons across all of the Company's businesses. While we were quick to launch items in preparation for the fall and winter seasons, we were unable to properly respond to actual weather conditions, and as a result, our efforts fell short. Looking ahead, we will work to increase the depth of our measures in a bid to better address unforeseen circumstances.

**Q.** Why have sales in the CHROME HEARTS (CH) business stalled?
**A.** In similar fashion to department store trends, difficulties in the CH business can be attributed to the slump in inbound demand. In addition to corrections to the rush in demand following the increase in prices in June 2015, sluggish sales in the CH business reflect the decision by customers to hold off on their purchases prior to the reduction in product prices that occurred during the first half of September.

**Q.** Tell us about the trends at each e-commerce site. What online store initiatives will you take from the 2H?
**A.** Looking at the rates of sales growth at e-commerce sites, sales grew at our own online stores by around 10% and roughly 30% at ZOZOTOWN. Other sites including Stylife, MAGASEEK, and i LUMINE exhibited a substantial upswing. Using a variety of promotional tools including daily coupons, the number of ZOZOTOWN customers is steadily increasing. Taking into consideration the common use of warehousing facilities by our own e-commerce and ZOZOTOWN sites, inventory tends to flow through the latter. This reflects ZOZOTOWN's considerable expertise in attracting customers. As far as the Company's in-house online shopping sites are concerned, steps were taken to integrate memberships in August. While integration triggered an initial period of customer confusion, we believe that any issues will gradually be overcome. Stylife and MAGASEEK customers through Rakuten BRAND AVENUE and docomo d fashion, respectively, are increasing. While also continuing to control the use of coupons in the 2H, we will pursue the potential of a variety of measures aimed at attracting customers.

**Q.** What do you see as COEN's challenges going forward?

**A.** COEN CO., LTD. must establish the necessary platform to carry out a wide range of activities. This includes a review of product procurement methods and actual store operations in a bid to succeed in a new trend-conscious market that differs from the market covered by UNITED ARROWS LTD. Taking into consideration its high cost structure, COEN must also take steps to enhance the efficiency of its costs.

**Q.** Can you elaborate on the operations of H BY, UA ROPPONGI HILLS, and WORK TRIP OUTFITS (WTO), initiatives that you have earmarked over the medium to long term?

**A.** The scope of customers visiting H BY store is increasing. In addition to adults with an interest in casual clothing and little experience with the BY brand, a growing number of local residents, people from the fashion industry, and travelers from overseas including Asia are looking to take part in the H BY experience. With the aim of raising the profile of the BY brand in the casual clothing market, we are very delighted to see this trend. The number of repeat customers in search of items that are handled only by the UA ROPPONGI HILLS store is also increasing. We are seeing an upswing in domestic and overseas visitors staying at neighboring hotels. Turning to WTO, inquiries from regional stores as well as young customers are becoming increasingly prominent.

**Q.** With the most recent downward revision of forecasts, earnings will fall for a third consecutive period. From a level above 10%, the operating income margin is expected to fall as low as 6.3%. What steps will you take to address this drop in earnings power?

**A.** Recognizing that existing methods are no longer effective, we are undertaking a medium-to long-term review of our operations. From a strategic perspective, several medium-to long-term initiatives are firmly taking shape. We plan to provide a full explanation in May next year. In quantitative terms, we will identify internal targets for the gross margin and selling, general and administrative (SGA) expenses as a ratio to sales. As far as the SGA expenses to sales ratio is concerned, we plan to identify an optimum level over the next few years by both undertaking costs and improving efficiency aimed at promoting sustainable growth.

***About Product Initiatives***

**Q.** Tell us about the competitiveness of private label brands. What was the ratio of private label brands in the 1H?

**A.** In the GLR business, which maintains a high ratio of private label brands, we are seeing the seeds of such initiatives as the introduction of 8-season merchandising and increases in product value bear fruit with each passing year. Nevertheless, we recognize the need to improve in certain areas, including our ability to respond to changing weather conditions, which has been lacking throughout the current fiscal year. We have been successful in strengthening business needs in the GLR business, and plan to apply the same initiatives to the ladies' category in our UA operations. The ratio of private label brands came in at around 45% in the 1H, up from 42.7% in the previous year. While the levels recorded in the BY and GLR brands have seen little or no change, we are witnessing an upswing in the UA business.

**Q.** Changes in product procurement and production can be expected to emerge with a reduction in the number of items and a quick response during the period. Will you pursue such measures as the review of factories and production sites?

**A.** We will change our fundamental approach toward merchandising design from the next spring and summer seasons. The manner in which we construct budgets will depend on certain prerequisites including a reduction in the number of items and efforts to generate seasonal sales. For example, roughly 80% of budgets to date have covered products introduced at the beginning of the spring and summer as well as fall and winter seasons. Going forward, we will lower this to around 60%, with the remaining budget allocated to responses undertaken during that period. We also understand the need to consider a variety of factors including changes in production sites.

***Other***

**Q.** The trend toward purchases for future use appears to be declining. When did this change first take place?

**A.** The change has been gradual. This trend became abundantly clear with major changes at the start-up of this year's fall and winter seasons compared with last year. In addition to weather conditions, we believe that this trend was exacerbated by our failure to properly address new trends. As far as the drop in future use demand is concerned, the industry as a whole is also responsible. By homogenizing products through the attributes of volume production and consumption, the focus of efforts aimed at differentiating products shifted inordinately toward price. This focus resulted in lower prices through a repetitive cycle of markdowns, which gave customers the impression that there was no immediate need to purchase items.

**Q.** Reducing costs and returning profits to shareholders are important issues. However, I am wondering about forward-looking investments. What are your thoughts on costs and investments?
**A.** We will undertake essential maintenance, repairs, and renovations in mainstay businesses from the next fiscal year. At the same time, we will invest in online store activities.

**Q.** What are your thoughts on future store opening strategies? Tell us about your outlook for the medium to long term.
**A.** Currently, recruiting the right staff is proving difficult. With this in mind, we will adopt a cautious approach toward opening new stores. We intend to provide details at the time of our medium-to long-term plan announcement while monitoring trends in complementary sales at actual and online stores.