

UNITED ARROWS LTD.
Earnings Announcement Q&A for the First Half of Fiscal 2018

UNITED ARROWS LTD. (or “the Company”) held earnings announcement presentations on November 6 and 7, 2017, at which representatives of the media, analysts, and institutional investors were in attendance. The principal questions received and answers given during each session have been presented by category below. Certain details have been added or amended to further understanding of the UNITED ARROWS Group’s performance and activities.

Fiscal 2018 Trends

Q. What was the status of inventories at the end of the first half? What is the outlook for inventories at the end of fiscal 2018?

A. Excluding the CHROME HEARTS business from the previous fiscal year’s results, non-consolidated inventories as a monetary amount decreased by approximately 1% from the end of the first half of the previous fiscal year. Breaking this down, products for the current fall and winter season—which account for the majority of inventories as a monetary amount—were down by about 5% from the end of the first half of the previous fiscal year. Generally, the monetary amounts of inventories comprising products for other seasons and the monetary amounts of inventories for the regular replenishment of products were at the same level as, or slightly above, their levels at the end of the first half of the previous fiscal year. As for the near-term outlook, we expect the monetary amounts of inventories at the fiscal year-end to be a little below the level at the previous fiscal year-end.

Q. In the first half, operating profit surpassed the target by ¥1.3 billion. Meanwhile, you have explained that you expect prior investment to account for cash outflows of ¥0.8 billion in the second half. Given the possibility of costs exceeding this amount, why have you not revised the full-year forecast at this juncture?

A. There is a possibility of costs rising due to factors including projects that are still under consideration and the payment of year-end bonuses to employees. Moreover, the third quarter, which significantly affects sales and earnings, has just begun. Therefore, we have left the full-year forecast unchanged at this stage.

Q. If exchange rates trend toward yen depreciation, how much of an effect on the spring and summer seasons of next year should we take into consideration?

A. Yen depreciation could affect procurement costs. However, we would respond through such measures as increasing the ratio of regular price sales and improving inventory efficiency. If the current level of exchange rates continues, the effect on the coming fiscal year is likely to be small.

Q. Amid a lack of major changes in trends, there seems to be a sense of recovery in the market for high-priced products. How are conditions in the industry? And, what is the outlook for the industry?

A. Although the current fiscal year is unlikely to see significant trend changes, in women's items a trend is emerging focused on items that customers have not previously owned, such as wide pants, high-waist pants, and blouses and knitwear that can be tucked into pants or skirts. As for men's items, in such categories as casual clothing, products with clearly defined brand characteristics are selling well. BEAUTY&YOUTH and other brands are receiving a favorable response from customers who are particularly fashion conscious. In the select shop industry, brands in affordable price ranges are performing favorably. We hear that sales of high-priced products are strong. However, sales of mid-priced products have been weak.

Initiatives for UNITED ARROWS (UA) House Card and Online Store Sales

Q. What changes have you seen since integrating the membership systems of UA House Card and UNITED ARROWS LTD. ONLINE STORE (UA ONLINE STORE) in August of last year?

A. Comparing figures on September 30, 2017, with those on September 30, 2016, we have achieved increases of 18% in membership of UA House Card, 30% in the number of active members who made purchases in the last year, and 10% in new members. Also, spending per member has seen double-digit growth. In online store sales, the growth rates of ZOZOTOWN and UA ONLINE STORE are converging. In the previous fiscal year, year-on-year sales growth was 33% for ZOZOTOWN and 13% for UA ONLINE STORE. In the first half, year-on-year sales growth was 25% for ZOZOTOWN and 24% for UA ONLINE STORE. We believe that the growth of ZOZOTOWN has in large part been attributable to higher customer numbers resulting from many companies' coupon measures. Meanwhile, UA ONLINE STORE has benefited from the integration of its

membership system with that of UA House Card in August of last year and a renewal that entailed integration with the Company's brand website in April of this year.

Q. Can you please break down online store sales trends by website?

A. Breaking down major websites' respective year-on-year non-consolidated sales growth and sales as a percentage of non-consolidated online store sales, ZOZOTOWN was 25% and 61%, UA ONLINE STORE was 24% and 21%, and Rakuten BRAND AVENUE was 35% and 5%. In addition, MAGASEEK and i LUMINE recorded slightly lower sales year on year, and each website accounted for 3% of non-consolidated online store sales. Amazon sales were up 30% year on year and were 3% of non-consolidated online store sales.

Q. Regarding the changes in the results of respective online store companies, which changes are attributable to the initiatives of UNITED ARROWS LTD. and which are attributable to the initiatives of respective online store companies?

A. The growth of ZOZOTOWN reflects increased customer numbers resulting from sales promotion measures based on coupons and other initiatives. UA ONLINE STORE has benefited from the integration of its membership system with that of UA House Card in August of last year and a renewal that entailed integration with the Company's brand website in April of this year. Amazon sales results stemmed from a strengthening of the inventory distribution of certain businesses and from the introduction of a new sales system. Under this system, clients only include photographs of products on their websites, and inventories are not distributed to clients. When customers place orders, products are sent from the inventories of our logistics centers to clients' warehouses.

Q. In the second half, investment aimed at increasing the efficiency of online store sales operations is included in investment for growth. At present, what are the issues, and how will this investment address these issues?

A. At present, with the exception of certain businesses, product images used in e-commerce are photographed at a studio in a separate location from that of the head office. We are considering consolidating this studio with the head office. One issue at present is that the product sales commencement dates of online stores are later than those of physical stores due to product presentation operations (photography, measurements, the writing of copy). This delay reduces the efficiency of sales promotion activities. Through the abovementioned consolidation, we will shorten lead times and bring the sales commencement dates of online stores and physical stores closer together.

Another issue is increasing the quality of product presentation operations. For this issue, we believe that the abovementioned consolidation will make it easier for directors and product planning managers to supervise “styling” (item coordination) and other aspects of presentation, thereby increasing the quality of product images and making products more appealing to customers. With increasing numbers of people using online stores as a substitute for catalogs, we think that the above initiatives will also attract more customers to our physical stores.

Introduction of RFID (Electronic Tags)

Q. How are UNITED ARROWS green label relaxing (GLR) and COEN using radio frequency identification (RFID)? What type of changes or benefits are resulting from the use of RFID?

A. At this point, increased productivity is the main benefit. Through the introduction of RFID, GLR has reduced the average time to take inventory per store from 80 hours to 13 hours. RFID has also increased the efficiency of inspection operations when receiving and shipping products. GLR has around four hours less overtime than other businesses, which is leading to fairly significant cost reductions. For COEN, the use of RFID tags is increasing the efficiency of the receiving and shipping operations of logistics centers, thereby reducing distribution costs.

Q. Specifically, how are you using RFID to enhance merchandising (MD) verification capabilities?

A. Point-of-sales (POS) data gives us information about products sold. However, this data does not allow us to collect information about products that customers tried on but did not buy. By using RFID, we can collect such information, enabling us to analyze why said products were not purchased. We plan to identify attributes that customers ultimately did not like and reflect our conclusions in measures for products in the next season. For example, we will analyze whether such issues as products’ fit or level of comfort discouraged customers who liked the designs of the products from purchasing them after trying them on.

Progress under the Medium-Term Vision

Q. How are measures for underperforming businesses and stores and the initiative revisions set out in the Medium-Term Vision progressing currently?

A. Currently, we are continuing to examine our options. We announced that we would withdraw from two businesses in the first half. Going forward, we will continue considering such measures as the closure of underperforming stores and the discontinuation of private label brands. We will redeploy personnel from closed stores and withdrawn businesses to growing business areas and move forward under a new framework from the coming fiscal year.

Q. How much scope for growth does the COEN business have? Do you expect an improvement in the profitability of this business?

A. Based on a detailed analysis of the targets and market of the COEN business, we concluded that on its own the existing COEN business can still expand further. At present, there are more than 80 COEN stores. Given that other companies have brands with networks in excess of 200 stores, we believe that there is abundant scope for additional store openings. In certain months, online store sales have been up more than 50% year on year, demonstrating that there is still plenty of room for growth. For the COEN business on its own over the long term, we are targeting sales of ¥20 billion and aiming for a double-digit ordinary income margin.