

UNITED ARROWS LTD.
Earnings Announcement Q&A
for the Nine-Month Period Ended December 31, 2017 of Fiscal 2018

UNITED ARROWS LTD. (or “the Company”) held earnings announcement presentations on February 5 and 6, 2018, at which 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 Business Results

Q. What are your reasons for not revising plans for the full fiscal year compared with plans for the nine-month period ended December 31, 2017?

A. While we initially projected a slight downturn in ordinary income for the nine-month period ended December 31, 2017, business results have been firm with both revenue and earnings exceeding plans. As we mentioned during the Company’s earnings presentation for the 1H of FY2018, full fiscal year plans remain unchanged. This largely reflects our decision to undertake investments aimed at medium- to long-term growth mainly in the 4Q. In addition to such key investments as the renewal and renovation of actual stores, efforts to improve our office environment in line with changes to our organization during the next fiscal year, and steps to set up a photo studio to help boost online store sales, we are considering the payment of period-end bonuses commensurate with business results. Other factors that we anticipate will have a negative impact include withdrawal from the Another Edition and Boisson Chocolat businesses as well as earnings attributable to the closure of stores.

Q. Why has the gross margin declined in the October-December 3Q compared with the previous year?

A. In addition to the increase in costs attributable to the weak yen, other factors include losses that stem from the Company’s decision to lower selling prices during VIP clearance sales that took place in December and other clearance sales targeting UNITED ARROWS (UA) House Card members. Following steps to integrate actual store UA House Card and e-commerce members and to consolidate our point service program, we are seeing an upswing in the number of members. The number of customers participating in each clearance sale is also increasing. Taking these factors into consideration, clearance sale results in December grew. From a profit perspective,

and despite a downturn compared with previous year, the gross margin in the October-December 3Q exceeded plans.

Q. Can you tell us about online store trends by site?

A. Looking at a breakdown and trends in online store sales by site, UNITED ARROWS LTD. ONLINE STORE (UA ONLINE STORE) sales have climbed 34% while accounting for 22.4% of total online store sales, an increase of 2.2 percentage points. ZOZOTOWN sales have grown 18% while comprising 57.9% of total online store sales, down 1.1 percentage points. Trends for Rakuten BRAND AVENUE and Amazon are 63% and 6.2%, an upswing of 1.5 percentage points, and 29% and 2.8%, an increase of 0.1 of a percentage point, respectively.

Q. Why has ZOZOTOWN growth stalled?

A. ZOZOTOWN launched a large-scale advertising initiative to promote a new credit payment service in November 2016. While we are unable to confirm the incidence or otherwise of use of this credit payment service UNITED ARROWS LTD. customers, we believe that recent stagnant ZOZOTOWN growth reflects a correction to the surge in customers to the site as a result of the advertising initiative and the extremely high growth of the previous year. Other factors include the absence of such measures as VIP clearance as well as other clearance sales targeting UA House Card members implemented by UA ONLINE STORE.

Q. While the decrease in inventories is indeed a good thing, are there any concerns regarding sales opportunity losses when looking at trends during January? What are your thoughts on the current level of inventories?

A. Inventories were extremely high last year. As far as the current status is concerned, we believe that inventories are at an appropriate level. While sales weakened during January owing mainly to thin inventory levels, we do not see this as a major issue given the positive impact of trends in the gross margin. Having said this, there is still room to consider various measures in the optimal control of inventories. This includes a review of the number of items and ways to secure inventory depth.

Q. What are your thoughts on the current state of the industry?

A. Looking at the industry as it currently stands, high-price range product and inbound sales trends are robust. In contrast, products in the mid-price range are confronting severe conditions. The lower a product is priced is not necessarily translating to increased sales. In fact, products that clearly exhibit value, even when priced in a slightly higher range, are moving extremely well. With a downturn outerwear purchases

as a result of the mild winters of recent years, sales of private label brand wool and down coats have been strong this winter. While we are not expecting any major changes in trends next spring and summer, signs of a change in women's print and patterned clothing are beginning to emerge.

Medium- to Long-Term Activities

Q. In addition to withdrawing from the Another Edition and Boisson Chocolat businesses, UNITED ARROWS LTD. has announced details of various measures including the end of EN ROUTE store operations. Can we assume that you will continue to closely scrutinize underperforming businesses in the future?

A. For all intents and purposes, we will have completed steps to scrutinize underperforming businesses by the end of the current fiscal year. However, we will continue to closely monitor stores including mainstay business operations going forward. We will maintain our focus on promoting such initiatives as the closure of stores, including those that have fulfilled their specified roles or have witnessed a change in their position, in line with online store expansion.

Q. Plans call for online store sales as a ratio of total sales to increase to between 25 and 30% over the long term. Do you see any difficulties in maintaining actual store sales while online store sales continue to grow at their current pace? What are your thoughts on the positioning of actual stores and your approach to opening new stores in the future?

A. We will adopt a calculated approach toward the opening of new stores while also reinforcing investments aimed at renovating existing stores that have a proven track record in attracting customers. Taking into consideration online store expansion, we will consider opening stores that also offer showroom features in the future.

Q. How will the introduction of radio frequency identification (RFID) impact costs from the next fiscal year?

A. In addition to tag charges, the introduction of RFID will attract lease fees for related equipment. However, we are already seeing cutbacks in sales personnel overtime as a result of the earlier introduction of RFID at green label relaxing (GLR). In similar fashion, we expect to recoup costs at other mainstay businesses. Moreover, we are confident that this initiative will reap other rewards. By minimizing ancillary operations and promoting ongoing improvements in labor conditions, sales personnel will have more time to spend on enhancing customer service as well as sales capabilities.

Corporate Governance

Q. As a company that deals mainly with aesthetic concerns focusing on the field of fashion, are you experiencing any difficulties in promoting governance? What function will the current governance framework play in medium- to long-term plan proposals?

A. Raising value for its five principal stakeholders (customers, employees, business partners, society, and shareholders) is a key element of UNITED ARROWS LTD.'s Company Policy. We maintain a culture that earnestly targets areas that require the utmost priority while maintaining a balance between aesthetic and practical concerns. We undertook discussions about what plan should be announced against the backdrop of a continuous downturn in earnings while taking into account investor feedback when putting in place the medium- to long-term plan. Our current medium- to long-term plan summarizes our commitment to securing long-term growth after building a firm foundation while ensuring a balance between offensive and defensive postures.

Q. Succession planning is an important issue for the future. What part will governance play in the Company's plans?

A. The Nomination and Remuneration Committee deliberates on succession and training plans. In putting in place a selection process to identify the next executive to lead the Company going forward, we take steps to incorporate an external perspective by soliciting the views of outside directors. Deliberations also include training plans and the criteria necessary to ensure the election of the most appropriate individual.