



UNITED ARROWS LTD.
Earnings Announcement Q&A
for Fiscal 2019, the Fiscal Year Ended March 31, 2019

UNITED ARROWS LTD. (or “the Company”) held earnings announcement presentations on May 9 and 10, 2019, at which analysts and institutional investors were in attendance. The principal questions received and answers given during each session have been presented by theme below. Certain details have been added or amended to further the understanding of the UNITED ARROWS Group’s performance and activities.

● **Forecasts for the new fiscal year**

Q. You have listed increases in personnel expenses and promotional costs as main causes of the year-on-year increase in the SGA expenses to sales ratio. What is the reason?

A. As the retail business as a whole faces a shortage of human resources, the Company too has vacancies and thus, has created budget plans for personnel expenses on the basis that vacancies will be filled to a certain degree. In addition, we changed our personnel system in April in order to increase employee motivation and the retention rate. Increases associated with this change have had a slight impact. Promotional costs have been affected by a shift to in-house operation of UNITED ARROWS LTD. ONLINE STORE (UA ONLINE STORE) scheduled for the fall and increases related to incentives for UNITED ARROWS House Card.

Q. Should we expect an ongoing increase in personnel expenses in the future?

A. We are making the utmost effort to increase the employee retention rate without increasing personnel expenses to the extent possible. Given the current social environment, however, personnel expenses may continue to increase gradually in the future. We are planning to cover it by increasing the ratio of online sales which have higher profitability.

Q. You have explained that while distribution costs would increase temporarily in fiscal 2019, an annual decrease of 200–400 million yen can be expected from then on. Can we still assume that the costs will decrease as expected?

A. In line with the change in operational structure of UA ONLINE STORE scheduled for the fall, slight changes have been made to the original plans. Therefore, the range of decrease for the current fiscal year is expected to be slightly lower than planned, approximately 300 million yen lower than last year when we saw an increase of 400 million yen.



Q. The number of store openings by Business Unit II, which is seen as the engine of future growth, is low in the new fiscal year. Was there a change in the policy?

A. Business Unit II has focused on opening small stores such as Lurow GREEN LABEL RELAXING and WORK TRIP OUTFITS GREEN LABEL RELAXING. Given that the level of sales has been different depending on the store location, we are making slight changes to our product lines. Therefore, the number of store openings for the current fiscal year is relatively low. However, the number is expected to increase in the next medium-term business plan.

Q. How do you plan to respond to the planned consumption tax hike and what is your sales forecast?

A. Based on lessons learnt from the previous tax hike, we are not planning to drastically increase inventory levels in anticipation of last-minute demand ahead of the tax hike this time. While we expect last-minute demand and the ensuing reverse effect for businesses with a high average sale per customer, the overall level of inventories is expected to remain largely unchanged.

●Sales through e-commerce sites

Q. What are the trends in online sales by major e-commerce site?

A. Non-consolidated online sales were up 11.9% year on year and represented 20.0% of total sales, up 1.7 percentage points year on year. The effective growth rate excluding the impact of sales generated by brands that were discontinued in the previous fiscal year was 22%. Looking at major websites, sales through the UA ONLINE STORE were up 23% year on year (up 30% when excluding the impact of the discontinued brands) and represented 26% of total online sales (up slightly over 2 percentage points year on year). Meanwhile, sales through ZOZOTOWN were up 2% year on year (up 11% when excluding the impact of the discontinued brands), representing 52% of total sales (down slightly over 5 percentage points year on year); sales through Rakuten BRAND AVENUE grew 105% (up 116% when excluding the impact of the discontinued brands), comprising 12% of total sales (up slightly over 5 percentage points year on year); and sales through Amazon rose 23% (up 26% when excluding the impact of the discontinued brands), accounting for slightly over 3% of total sales (slight increase year on year).

Q. When just looking at the three months of the fourth quarter, the growth of UA ONLINE STORE seems to be low while that of ZOZOTOWN is strong. What is the factor? Is there any impact of ZOZOARIGATO?

A. The growth rate of ZOZOTOWN was high in the fourth quarter. This is because compared with last year, which saw a low inventory of clearance sales products, there was a wide variety of inventories in fiscal 2019, and this seems to have contributed positively to ZOZOTOWN with its high needs for clearance sales. The impact of ZOZOARIGATO is unclear. Meanwhile, the growth



rate of UA ONLINE STORE in fiscal 2019 was relatively low. This was due to the existence of high hurdles to clear from the strong results recorded last year with the delivery of RIMOWA suitcases and final clearance of brands that were discontinued in the previous year. Therefore, we do not see a major change in the trend up to the third quarter.

Q. Is there any change in the role and position of other companies' e-commerce malls after the scheduled structural change of UA ONLINE STORE in the fall?

A. We will continue to open stores in other companies' e-commerce malls while enhancing UA ONLINE STORE. We regard other companies' e-commerce malls as a gateway for customers who have no or little experience of shopping at the Company and a means to drive customers to physical stores and UA ONLINE STORE from a mid- to long-term viewpoint.

Q. What specific changes are you going to make after the scheduled structural change in the fall?

A. In terms of the website, accessibility such as display speed and website flows will improve dramatically. The structural change will enhance connectivity with physical stores as the Company's distribution centers will function as the delivery base, enabling stores without inventories to directly ship products to customers from distribution warehouses after making payments at physical stores. We are working to enhance the level of services to those provided at physical stores through such measures as shipping products that have been altered at distribution warehouses and providing gift wrapping services.

●Response to changes in the market

Q. Are there any differences between your projection and market trends compared with the time when the current Medium-Term Vision was announced?

A. The social environment has changed significantly, including customer trends and preferences, from three years ago when we announced our current medium-term business plan. We have been able to respond to such changes for women's items in all markets and continue to respond to expected changes by making minor changes to our strategies. With regards to the trend-conscious market, we have seen a tendency to return to physical stores. Many customers have started to find value in information which can be obtained from shop staff and attractive styling ideas, showing purchasing behavior that is not solely affected by prices.



Q. Both the trend-conscious market and basic trend-conscious market are facing challenges in men's items. How will you respond to the situation?

A. In the area of business wear, casual wear has been attracting increasing attention in addition to growing needs for tailor-made suits. The customer's focus is changing from how to wear business items casually to how to incorporate casual items into business wear. We will create new styles by going beyond the conventional concept of men's business styles.

●**About overseas business**

Q. There has been a change in the management structure of a subsidiary in Taiwan. How is the overseas business positioned from a mid- to long-term viewpoint?

A. When we started our overseas business, we focused on expanding our trend-conscious market business. However, it is difficult to achieve rapid expansion in specialty stores such as UNITED ARROWS and BEAUTY&YOUTH UNITED ARROWS due to the issue of product procurement and the size of markets. Conversely, green label relaxing (GLR) and COEN are judged to have high potential. Therefore, we have appointed Director Fujisawa, who has developed GLR and is the President of COEN CO., LTD. (COEN), as the person responsible for overseas business and grow business by focusing on GLR and COEN.