UNITED ARROWS LTD.
Earnings Announcement Q&A
for the Three-Month Period Ended June 30, 2018

UNITED ARROWS LTD. (or "the Company") held earnings announcement presentations on August 6 and 7, 2018, at which 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.

Business Results

Q. What were the reasons behind the improvement in the gross margin?

A. The overall improvement in the gross margin in the three-month period ended June 30, 2018, was primarily a result of improvements in the margins of the business units of UNITED ARROWS LTD. and of subsidiaries CHROME HEARTS JP, GK (CHJP), and COEN CO., LTD. (COEN) . At UNITED ARROWS LTD., procurement costs were up due to foreign exchange influences, but losses from price reductions were down. CHJP benefited from price revisions instituted in June 2017. Meanwhile, COEN enjoyed a higher ratio of regular price sales.

Q. Could you please provide a breakdown of unused costs in the three-month period ended June 30, 2018? Also, what are your forecasts for such costs in the remainder of the fiscal year?

A. In the three-month period ended June 30, 2018, unused costs amounted to between ¥300 million and ¥400 million. This amount was primarily attributable to the accumulation of general costs associated with packaging supplies, consumables, and communication fees. The actual incurring of a portion of these costs may be delayed until later in the fiscal year. As of June 30, 2018, personnel expenses were in line with forecasts and included expenses associated with personnel relocations following withdrawals from businesses effective March 31, 2018, and the hiring of new graduates.

Q. How are trends in online sales through major websites?

A. Sales through the UNITED ARROWS ONLINE STORE (UA ONLINE STORE) were up 34% year on year and represented 26% of total online sales (up more than 4 percentage points year on year). Meanwhile, sales through ZOZOTOWN were relatively unchanged year on year, representing 53% of total sales (down almost 6 percentage points year on year); sales through Rakuten BRAND AVENUE grew 67%, comprising 8% (up nearly 3 percentage points year on year); and sales through Amazon rose 45%, accounting for less than 4% of total sales (up nearly 1 percentage point year on year). The VIP clearance sales and clearance sales targeting UNITED ARROWS House Card members instituted in June 2018 were only available through the UA ONLINE STORE. As such, there were several cases in which we prioritized use of inventory allocated to START TODAY CO., LTD., to fill orders through the UA ONLINE STORE. This was one reason behind the differences in growth rates between the UA ONLINE STORE and ZOZOTOWN in the three-month period ended June 30, 2018. As for Rakuten BRAND AVENUE and Amazon, these sites feature extensive customer bases, and sales through these sites grew as we allocated larger inventories to them.

Q. Have any benefits been seen from the reorganization conducted in April 2018?

A. In Business Unit I, which primarily targets trend-conscious markets, we have removed the barriers between the organizations for the mainstay brands of UNITED ARROWS (UA) and BEAUTY&YOUTH UNITED ARROWS (BY), and we are currently in the process of implementing reforms to address redundant products and operating procedure differences between these two businesses. In addition, we are revising our merchandising practices based on the areas of specialty of UA and BY and the characteristics of each specific store. For example, stores in office areas are focusing on business attire while stores in terminal stations are increasing the portion of their lineups accounted for attire for business and casual use. In Business Unit II, which mainly caters to basic trend-conscious markets, the product team from Boisson Chocolat, a brand that was discontinued at the end of the previous fiscal year, was transferred to UNITED ARROWS green label relaxing (GLR), where they designed private label shoe products that are proving to be a hit. In this manner, the benefits of the reorganization are gradually appearing.

Q. When compared to the strong performance seen in women's categories, the sluggish performance of men's categories is all the more apparent. What were the reasons behind this sluggish performance? Also, in which of the strong-performing women's categories will growth be seen going forward?

A. In regard to women's categories, we were able to achieve sales growth by expanding our lineups of attire for business and casual use in response to changes in the operating environment, such as the rise in the number of working women and the trend toward more casual business attire. In the three-month period ended June 30, 2018, the benefits of these efforts manifested most significantly in UA women's dressy items, and favorable growth was also seen for BY and GLR. Going forward, we will take steps to ensure that our products do not simply mimic prior years' offerings in an attempt to duplicate past successes in order to ensure that we can actually continue to grow sales. The sluggish performance for men's categories was a result of the fact that the operating environment trends contributing to sales in women's categories were less pronounced for men's categories as well as the fact that the more casual office dress codes resulted in a decline in demand for suits. As our approach for the future, we aim to propose items that are not overly encumbered by conventional wisdom pertaining to men's wear and that are thereby able to match the changing times, as we did with our suit sets made from functional materials as well as the three-way bags that can be used in both business and casual settings.

Q. Sales growth in Business Unit II was lower than in Business Unit I. Where is there room to improve sales of GLR?

A. UNITED ARROWS LTD. has operated a product platform for numerous years, but this platform is purely based on a select shop business model. Accordingly, there are parts of this platform that are not suited to SPA-type business models, which tend to generate a large portion of their sales through private label brands. We therefore see a need to adapt this platform to better suit Business Unit II. Our current merchandising approach entails subdividing seasons into eight divisions. However, we are examining new approaches for our SPA-type businesses, such as further subdividing seasons, in light of their high levels of demand for products for use in the given season.

Other

Q. How was progress with regard to the reorganization of distribution centers and to what extent are costs projected to be incurred in relation to this reorganization going forward?

A. The reorganization of distribution centers is progressing smoothly, and the transfer of distribution operations for BY and GLR has almost reached the final phase. Future plans include the transfer of UA distribution operations, which will begin at the end of 2018 and be completed around February 2019, and the consolidation of inventory management pertaining to front-line stores into the Nagareyama Distribution Center. As for distribution costs, a year-on-year increase of almost ¥200 million was seen in such costs in the three-month period ended June 30, 2018, and a similar increase of around ¥200 million is expected in the first half ending September 30, 2018. The increase in costs will be relatively low during the second half of the fiscal year, and the reorganization will contribute to lower costs in the next fiscal year and beyond.

Q. What are the trends regarding existing stores and earnings at COEN?

A. Sales at existing stores for COEN increased 16% year on year when combining retail and online sales, 8% for just retail, and 46% when looking only at online sales. Television commercials were aired to raise recognition of the COEN brand. Earnings exceeded forecasts even when accounting for the costs associated with those commercials.