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

UNITED ARROWS LTD. (or “the Company”) held earnings announcement presentations on November 5 and 6, 2018, 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 understanding of the UNITED ARROWS Group’s performance and activities.

Business Results

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

A. Non-consolidated online sales were up 8.0% year on year. This increase was 20.6% when excluding the impact of the absence of sales generated by brands that were discontinued in the previous fiscal year. Looking at major websites, sales through the UNITED ARROWS LTD. ONLINE STORE were up 34% year on year (up 43% when excluding the impact of the discontinued brands) and represented 26% of total online sales (up 5 percentage points year on year). Meanwhile, sales through ZOZOTOWN were down 4% year on year (up 8% when excluding the impact of the discontinued brands), representing 54% of total sales (down 7 percentage points year on year); sales through Rakuten BRAND AVENUE grew 78% (up 92% when excluding the impact of the discontinued brands), comprising 8% of total sales (up 3 percentage points year on year); and sales through Amazon rose 50% (up 55% when excluding the impact of the discontinued brands), accounting for nearly 4% of total sales (up 1 percentage point year on year).

Q. How was performance at individual Group companies?

A. Sales at existing stores for COEN CO., LTD. increased 17% year on year when combining retail and online sales, 6% for just retail, and 55% when looking only at online sales. The gross margin at this company decreased slightly in the six-month period due to a lower margin in the second quarter that resulted from our prioritizing the depletion of inventories, which offset the improvement seen in the gross margin during the first quarter. Nevertheless, both sales and income at COEN exceeded our forecasts. FIGO CO., LTD., meanwhile, suffered a decline in sales and income as the impacts of faltering performance in the wholesale field outweighed the benefits of strong online sales. We aim to identify the areas of FIGO's initiatives that are underperforming by the end of the fiscal year ending March 31, 2019 in order to return this company to the growth track in following fiscal year and beyond. CHROME HEARTS JP, GK was able to achieve an improvement in the gross margin, which resulted in higher operating income, despite the decline in net sales in the wake of the rush in demand seen prior to price hikes in June 2017. Elsewhere, Designs & Co. has enjoyed brisk performance that has continued since the 2018 spring–summer season while our subsidiary in Taiwan advanced initiatives including the sale of COEN products online and through limited-time stores.

Q. Are additional expenses expected to be incurred during the second half of the fiscal year?

A. We expect approximately ¥200 million in expenses to be incurred during the second half of the fiscal year for renovating existing stores along with another roughly ¥200 million in both unplanned and planned expenses for the six-month period ended September 30, 2018, that were delayed. At the same time, we intend to examine the possibility of conducting additional investments during the second half of the fiscal year based on trends in net sales and gross profit going forward.

Other

Q. What types of progress and benefits have been seen with regard to the organizational restructuring performed in April 2018?

A. Business Unit I, which primarily targets trend-conscious markets, consolidated major businesses that were previously operated by separate organizations, namely UNITED ARROWS (UA) and BEAUTY&YOUTH UNITED ARROWS (BY), as well as the small business units Odette e Odile (OEO) and DRAWER (DRW). The integration of UA and BY enabled us to effectively curtail the lineups of these brands by eliminating redundant items. In addition, we are now able to make styling proposals that go beyond the boundaries of the business and casual categories. We are currently in the process of fully renovating general merchandise stores that offer both UA and BY products, and we have converted our Yokohama, Shinjuku, and Kobe Sannomiya stores into general merchandise stores based on a new concept. As for OEO and DRW, the integration with mainstay businesses will allow for the generation of synergies in product planning, store operation, and other areas.

Business Unit II, which mainly caters to basic trend-conscious markets, houses mainstay business UNITED ARROWS green label relaxing (GLR) as well as Jewel Changes (JC) and THE STATION STORE UNITED ARROWS LTD. (ST). The product team from Boisson Chocolat, a women's shoes brand that was discontinued at the end of the previous fiscal year, was reassigned to this unit, where they have been put in charge of GLR private label shoe products. GLR had previously relied on OEM manufacturers for women's shoes. This reorganization, however, has enabled us to plan and manufacture products through in-house frameworks, which has contributed to higher evaluations for the designs, comfort and ease of wear, and other elements of GLR women's shoes, underpinning the strong performance of the women's category of GLR. For JC and ST, we expect the benefits of the restructuring to appear going forward as we incorporate product planning for these brands into GLR's organization.

Q. What is the status of operations at the new distribution center established in May 2018? Also, have there been any changes in costs associated with this center?

A. Operations at the new distribution center are progressing even more smoothly than anticipated. Looking ahead, we plan to advance initiatives with a view to omni-channel retailing. The reorganization of distribution centers, meanwhile, was initially projected to result in an increase in costs totaling around ¥500 million on a full-year basis. In the six-month period ended September 30, 2018, these costs only amounted to ¥300 million, in comparison to the projected level of ¥400 million, and just ¥100 million in costs are expected to be incurred during the second half of the fiscal year. As a result, full-year costs are now anticipated to come to around ¥400 million. Moreover, the reorganization is expected to result in a reduction in costs of between ¥200 million and ¥400 million in the fiscal year ending March 31, 2020, and in subsequent fiscal years.

Q. Women's items continue to enjoy favorable performance. Is this trend limited to the Group, or are other apparel companies also experiencing similar trends?

A. Many of our competitors are not listed on the stock market, and we are therefore unable to maintain a detailed understanding of their performance. However, we believe those companies that were quick to respond to the changes in business wear brought about by women's increasing participation in the workforce should be reaping the results of those efforts. Factors behind this strong performance include the ability to propose attire for business and casual use and other highly fashionable items that are more than just business wear. This is an area in which UA previously struggled to furnish the necessary proposals, but we have been seeing an upward trend in performance that began in the previous fiscal year. UA plans to pursue higher pinnacles of performance in the future. Although GLR is continuing to enjoy strong performance, we recognize the need to make minor adjustments to our initiatives in regard to eight-season merchandising and season transitions. For example, if the record-breaking heat that plagued 2018 persists going forward, accessories will become increasingly important in the period during which customers replace their wardrobes between the spring–summer season and the fall–winter season. UA and BY are able to generate attention through exclusive items from popular brands. Meanwhile, GLR and other SPA-type businesses will need to enhance their lineups of original accessories. We are currently advancing initiatives in this regard.

Q. What challenges are faced with respect to men's items and what is your outlook for this product category?

A. Synthetic material suits and the jacket and pants style of fashion are gaining popularity because of changes in the social climate and in customers' lifestyles. As a result, disparities in sales are arising based on the degrees to which we have been able to respond to this trend. In regard to men's dress items, our responses to these trends have been slow as a result of long production lead times and the unique particularities of the menswear industry. The issues needing to be addressed on this front have already been identified. We plan to respond to these issues through various initiatives going forward, such as arranging internal exhibitions as a venue for proactively incorporating the input of sales divisions.