UNITED ARROWS LTD.

Earnings Announcement Q&A

for the Nine-Month Period Ended December 31, 2018

UNITED ARROWS LTD. (or "the Company") held earnings announcement presentations on February 5 and 6, 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.

●Business Results

Q. How did sales, gross profit, and selling, general and administrative (SGA) expenses up to the third quarter compare with plans?

A. Sales and gross profit exceeded plans by roughly ¥1.2 billion and just under ¥0.3 billion, respectively, while SGA expenses were below plan by just under ¥0.3 billion. Operating income and ordinary income exceeded plans by around ¥0.6 billion. Given that investment will be made in the fourth quarter with an eye to growth in the next and subsequent fiscal years, full-year profits are expected to be around the forecasts announced at the beginning of the period.

Q. Is there any impact of the warm winter on gross profit?

A. The warm winter has caused a 3-week delay in seasons. In response, we quickly discounted slow-moving products in the third quarter and accelerated our reduction of inventory. While we secured sales and gross profit in January due to a delay in the clearance sales needs and sufficient volume of clearance sales inventory, gross margin was slightly weak. For full-year profits, we will balance profits and inventory with a focus on exceeding the gross profit forecasts announced at the beginning of the period and avoiding excess stock.

Q. Is there any major movement related to SGA expenses over the course of three months in the third quarter?

A. There are no major additional projects and they are progressing as planned.

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

A. Non-consolidated online sales were up 9.1% year on year. The effective growth rate excluding the impact of sales generated by brands that were discontinued in the previous fiscal year was about 20%. Looking at major websites, sales through the UNITED ARROWS LTD. (UA) ONLINE STORE were up 30% year on year (up 39% when excluding the impact of the discontinued brands) and represented 27% of total online sales (up 4 percentage points year on year). Meanwhile, sales through ZOZOTOWN were down 6% year on year (up 4% when excluding the impact of the discontinued brands), representing 50% of total sales (down 8 percentage points year on year); sales through Rakuten BRAND AVENUE grew 111% (up 124% when excluding the impact of the discontinued brands), comprising 12% of total sales (up 6 percentage points year on year); and sales through Amazon rose 28% (up 32% when excluding the impact of the discontinued brands), accounting for slightly over 3% of total sales (slight increase year on year).

Q. You have made a series of large-scale infrastructure and other investments. When can we expect these investments to start generating returns?

A. Since the fiscal year ending March 31, 2020 is the final year of our Medium-Term Vision, achieving targets for the next fiscal year is mandatory. Our current investments are meant for the future and expected to contribute to revenue in the long run. Each business unit will increase profitability by eliminating waste and shifting to a lean structure. We are facing challenges in men's items and accelerating reforms by going beyond our conventional thinking.

Q. I would like to know your view for the next fiscal year. Given that there will be no temporary costs associated with the transfer of distribution centers which pushed up costs in the current fiscal year, can you expect revenue growth in the next fiscal year?

A. While we recorded over ¥0.4 billion temporary costs associated with the transfer of distribution centers during the fiscal year under review, this portion will be eliminated in the next fiscal year. While our subsidiary COEN CO., LTD. experienced a cost increase of about ¥0.2 billion during the fiscal year under review due primarily to TV commercials, our forecasts for the next fiscal year are still under discussion. Our income target for the next fiscal year is still being planned and thus we are not yet able to provide explanations.

●Changes in the development and operational structure of UA ONLINE STORE

Q. What is the background leading up to your decision to change the development and operational structure?

A. Amid changes in customers' purchasing behavior, we concluded that we should shift to a structure which enables us to proactively engage in development in order to remove boundaries between physical and online stores and provide the same level of services at both stores. This has led to our decision to change the structure.

Q. What is the amount of investment related to changes in the development and operational structure and what are the future cost advantages?

A. We expect a cash outflow of about ¥1.6 billion in the next fiscal year due mainly to system-related investment. However, its impact on P&L is expected to be minor. UA ONLINE STORE has been growing at an annual rate of 40%. Since the new initiative will enable us to offer various services which have not been possible in the past, we expect to maintain an annual growth rate of about 40% at least in the next few years. In such a case, the SGA expenses to sales ratio of UA ONLINE STORE is expected to improve 3 to 6 points from the current level. Since the new initiative is designed to eliminate boundaries between online and offline channels and enhance connectivity with physical stores, it is expected to contribute to sales growth of physical stores.

Q. According to your explanation, you will use other companies' e-commerce malls as a gateway to your company's e-commerce site. Do you have any specific initiative in place?

A. UA ONLINE STORE has achieved steady growth attributable to enhancement measures implemented in the past few years, including consolidation of physical and online store members in August 2016 and consolidation with a brand website in April 2017. We believe that expanding our services through the recent structural change will enable us to attract customers to UA ONLINE STORE.

Q. What do you expect from partner companies in relation to the recent structural change?

A. When we select partner companies, we place the utmost importance on whether they have the capacity to provide services that we are offering at physical stores at online channels.

Q. What area do you think will be important to realize the sales model described on p. 22 in the presentation material?

A. The most important key is to increase the accuracy of product development. We focus on providing products that better meet customer needs by predicting the future based on various data sources, including the use of radio frequency identification (RFID).