

Business Model

Overview of the UNITED ARROWS Group

The markets in which the UNITED ARROWS Group operates

The apparel market can be divided into two categories: the volume market, which mainly consists of relatively low-priced daily clothing, and the trend-conscious market for consumers who are highly sensitive to fashion trends. The UNITED ARROWS Group targets this trend-conscious market.

Our target customers are people who have a strong interest in fashion and want to enrich their lives through it. Specific operating activities are driven by an awareness of this customer segment.

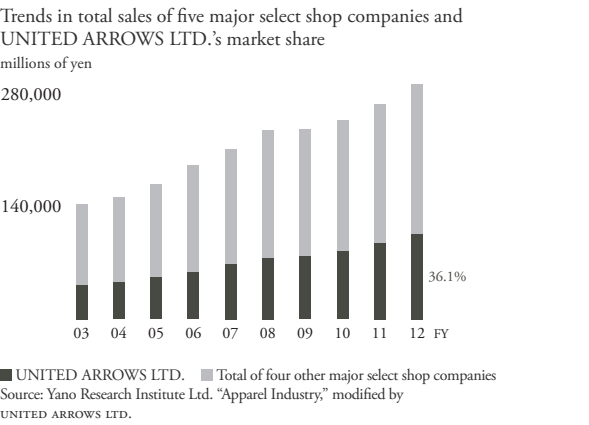
Market positioning map



¹ GMS: General merchandise store

Select shops

Select shops are stores that provide customers with products based on unique brand concepts and the discerning judgment of their buyers. There are also a significant number of companies that adopt an SPA² (specialty store retailer of private label apparel) strategy under which they offer a mix of purchased and private label products. In handling products that offer the appeal of high-value-added attributes and a distinctive uniqueness, select shops are positioned between department and specialty stores at the mid to high-end price range. As such, they are relatively unaffected by trends in economic conditions. UNITED ARROWS LTD. maintains a balance between attracting customers by carefully handpicking selected designer brands from Japan and overseas and ensuring high profitability by offering private label brands. The Company has the largest sales of any company adopting a select shop business model and is the only such company to have publicly listed its stock.



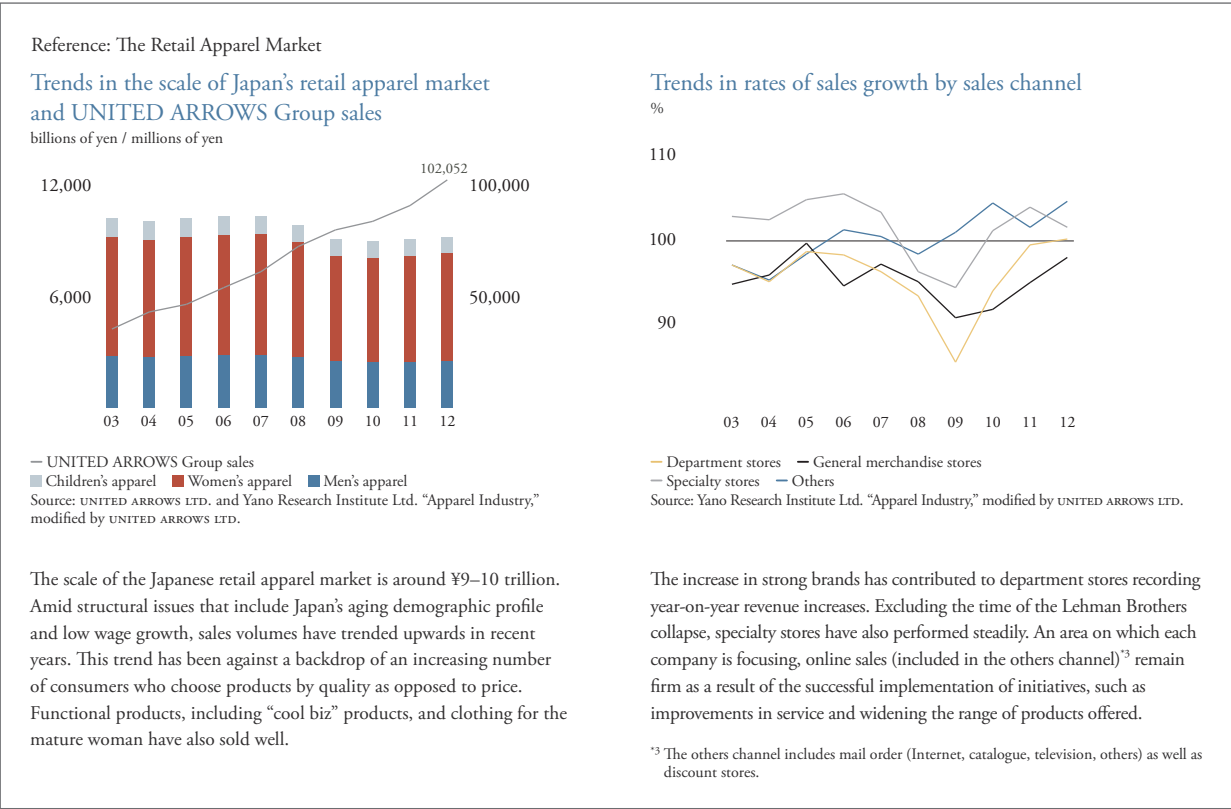
² SPA (specialty store retailer of private label apparel): A fashion company with comprehensive involvement from manufacturing through to retailing.

The UNITED ARROWS Group's business structure

UNITED ARROWS LTD. started out as a select shop handling men's business attire, focusing mainly on purchased brands. It has since evolved and adopted an SPA strategy that offers a mix of purchased products and private label products, offering men's and women's dressy and casual clothing and miscellaneous lifestyle goods.

With UNITED ARROWS and UNITED ARROWS green label relaxing, our other full-line store that offers an SPA-type mix of both purchased and private label products, serving as our key

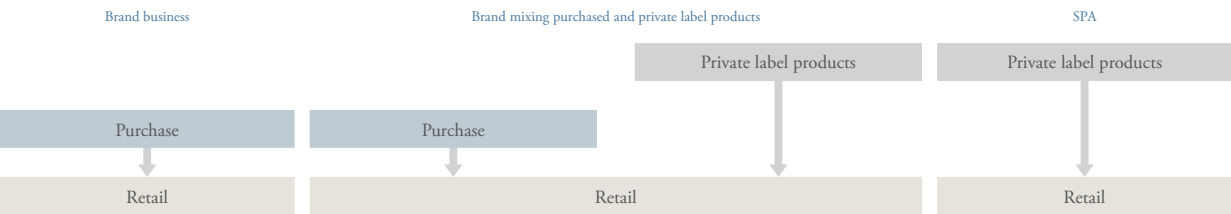
offerings, we now have numerous other businesses with different characteristics, including our brand business, CHROME HEARTS, and our SPA business, COEN. By handling a broad range of products for various tastes, we are aiming to expand our customer base and meet diversifying customer needs. In addition, we are also leveraging synergies between our various businesses and transforming into a sustainable group that achieves solid profits and is resilient to changes in the external environment.



Business composition of main store brands

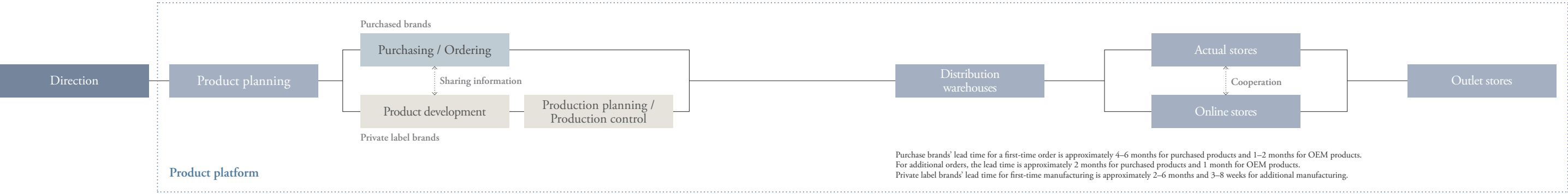


Value chain by business model



Product Flow (Value Chain)

UNITED ARROWS LTD. has positioned its stores at the frontline of its operating activities. Every effort is made to reflect the comments and opinions gleaned from customers in every facet of the value chain. All initiatives including product development, inventory management, and customer service generate synergy benefits within the value chain. This is the source of the Company’s robust competitive advantage.



Direction

A feature that defines UNITED ARROWS LTD. is the direction that initiates all activities related to product development. Direction, which is based on shifts in social tastes, allows us to put in place a common theme across all businesses on a seasonal basis. In addition, the marketing department consistently undertakes research into the latest fashion trends, providing this information across the Company. Each business then draws on this information to establish specific themes that incorporate particular attributes.

Product planning

Product planning entails dividing the year into 52 weeks and putting in place a process and lineup based on 52-week merchandising. Drawing on past customer trends and behavior as well as sales data, UNITED ARROWS LTD. puts in place a product strategy focusing on the most appropriate items, prices, and volumes for each season. During each season, the status of sales is closely monitored. This monitoring process helps to verify the validity of each strategy and to alert the Company of the need to make necessary adjustments through detailed modification. In this manner, every effort is made to achieve the targets for sales and profits.

Purchasing / Ordering

Under the Company’s concepts with respect to direction and product planning, buyers attend exhibitions and view fashion collections in Japan and overseas. This is done while undertaking detailed purchasing negotiations about the item, volumes, purchase price, and delivery. Buyers are also involved in the development of exclusive items with popular brands. Through these means, steps are taken to

further differentiate products from other companies. In addition to strengthening the integrity of existing brands, the Company’s mission includes uncovering promising new brands ahead of its rivals.

Product development

Under the Company’s concepts with respect to direction and merchandising, steps are taken to develop designs and fabrics and to prepare patterns. While fully expressing the concept of each brand, samples are also shared with the sales department. At the same time, energies are channeled toward incorporating feedback gleaned from staff in their dealings with customers at stores with moves made to push forward product development while undertaking minor adjustments. Designers accompany buyers during their purchasing trips to better grasp global fashion trends. Complemented by the mutual exchange of information, particular weight is placed on harnessing the merits of the business model that entails the combined development of purchased products and private label brands. This serves as the wellspring for differentiating the Company’s products.

Production planning / Production control

UNITED ARROWS LTD. formulates production strategies that encompass the selection of contract factories as well as procurement. This is in accordance with the specifications of each product, together with cost control initiatives. After placing an order, the Company collaborates closely with contract factories; controls delivery, quality, and costs; and oversees the entire process through to product completion. In addition to harnessing customer feedback to further enhance production planning, regular

meetings are held with contract factories to improve the quality of finished products.

Distribution warehouses

UNITED ARROWS LTD. engages in distribution warehouse operations in collaboration with distribution companies. The Company maintains a network of two distribution centers that operate on a 24-hour basis in Japan. Inventory control is conducted on a concentrated basis through various initiatives including price tagging and product inspection. While product deliveries to stores are maintained at an optimal minimum, a point of sale (POS) system is installed at all stores. With the exception of stores in certain regions, stores sales data up to 11:00pm is transmitted to the appropriate distribution center. Any shortfall at a particular store is then replenished before the store opens the following day. This serves to minimize sales opportunity loss as well as the transfer of products between stores.

Actual stores

Based on its Mission Statement — It’s All About the Customer — UNITED ARROWS LTD. strives to meet the needs of each individual customer and to provide a level of satisfaction and inspiration that exceeds all expectations. Sales personnel are provided with a host of training programs including on-the-job training at stores. Through a series of award systems, the Company is quick to recognize outstanding personnel. Through these means, every effort is made to continuously enhance the knowledge, skills, and motivation of staff. In addition, energies are channeled toward choreographing the shopping experience to deliver maximum excitement and delight. A key aspect of this endeavor is the

creation of stores and interior environments that express the worldliness of each brand in a visually appealing light.

Online stores

In addition to operating UNITED ARROWS LTD. ONLINE STORE, the Company is opening stores on such online fashion sites as ZOZOTOWN. UNITED ARROWS LTD. ONLINE STORE is promoting initiatives to heighten collaboration between online stores and actual stores in order to meet the needs of customers who want to try on a product in an actual store prior to purchase or would like to use online sales only on an as needed basis. UNITED ARROWS LTD. ONLINE STORE added a function that enables customers to check online the status of products handled at actual stores and, in March 2014, commenced a new service at some stores by which desired products can be collected from a designated store.

→ P22 Special Feature 2:
O2O: Challenges and Evolution toward Becoming a Leading Company

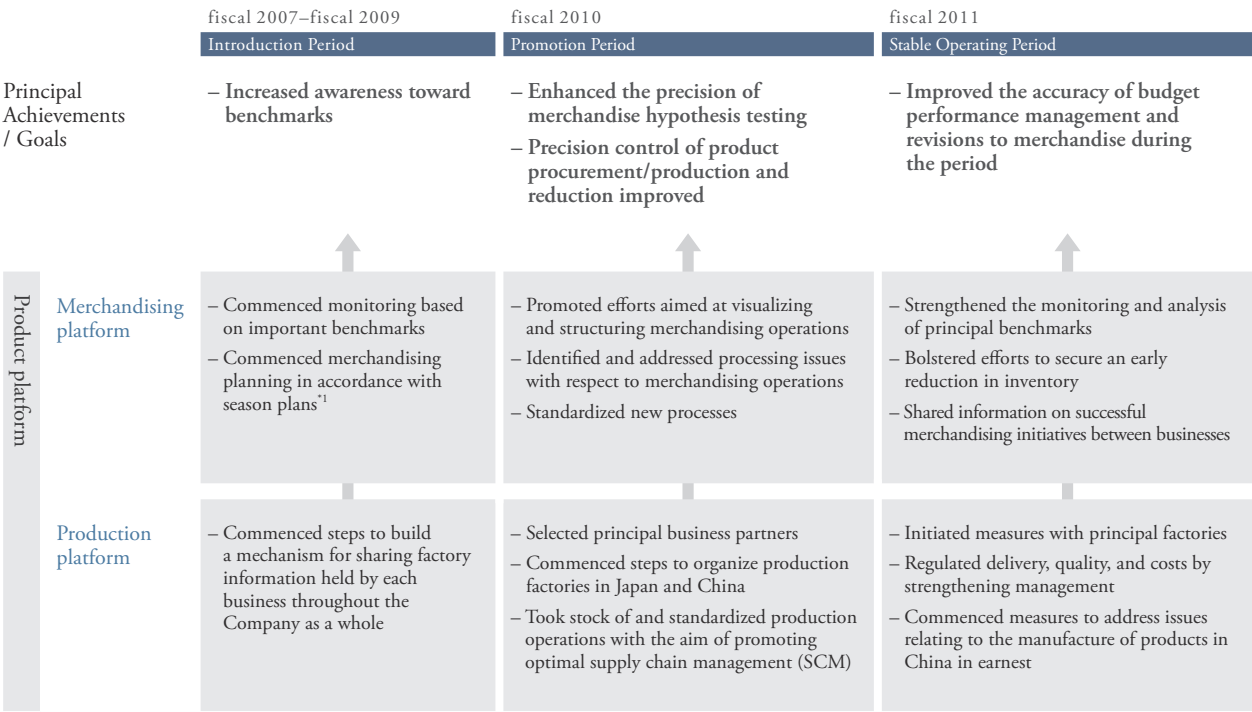
Outlet stores

UNITED ARROWS LTD. OUTLET plays the important role of continuously reducing residual inventories of slow-selling products as well as excess stock in each business category. Promoting the prompt transfer of stock to outlet stores helps maintain the fresh appeal of products at frontline stores. The swift reduction of inventories and conversion into cash from sales also serves to secure improvements in gross profits and cash flows. UNITED ARROWS LTD. OUTLET STORES are for the most part located in suburban and exurban areas. For this reason, these stores help raise brand awareness among residents who live outside the network of the Group’s frontline stores.



Product Platform

Initiatives in transition



^{*1} Season plan: Procurement planning document to determine the amounts of procurement and inventory as well as the inventory reduction method that underpins sales, gross profit, and final sales rate targets.

What is the product platform?

The product platform, which is comprised of a merchandising platform and a production platform, is a framework that supports each of the procurement, production, product launch, and inventory reduction activities. This overarching framework is used to stabilize merchandising operations by standardizing and structuring activities that are susceptible to the experience and skills of employees.

The merchandising platform provides the mechanism for determining the current status of merchandise flows and the basis for making decisions. Utilizing the progress management tables and indices consistent across all businesses, UNITED ARROWS LTD. has established a swift and easy-to-implement decision-making process that allows the Company to promote the additional production of top-selling items while reducing production and inventories of slow-selling items. As a result, UNITED ARROWS LTD. has witnessed increases in the rates of inventory reduction as well as final sales. This is in turn leading to improvements in gross profit, inventories, and cash flows.

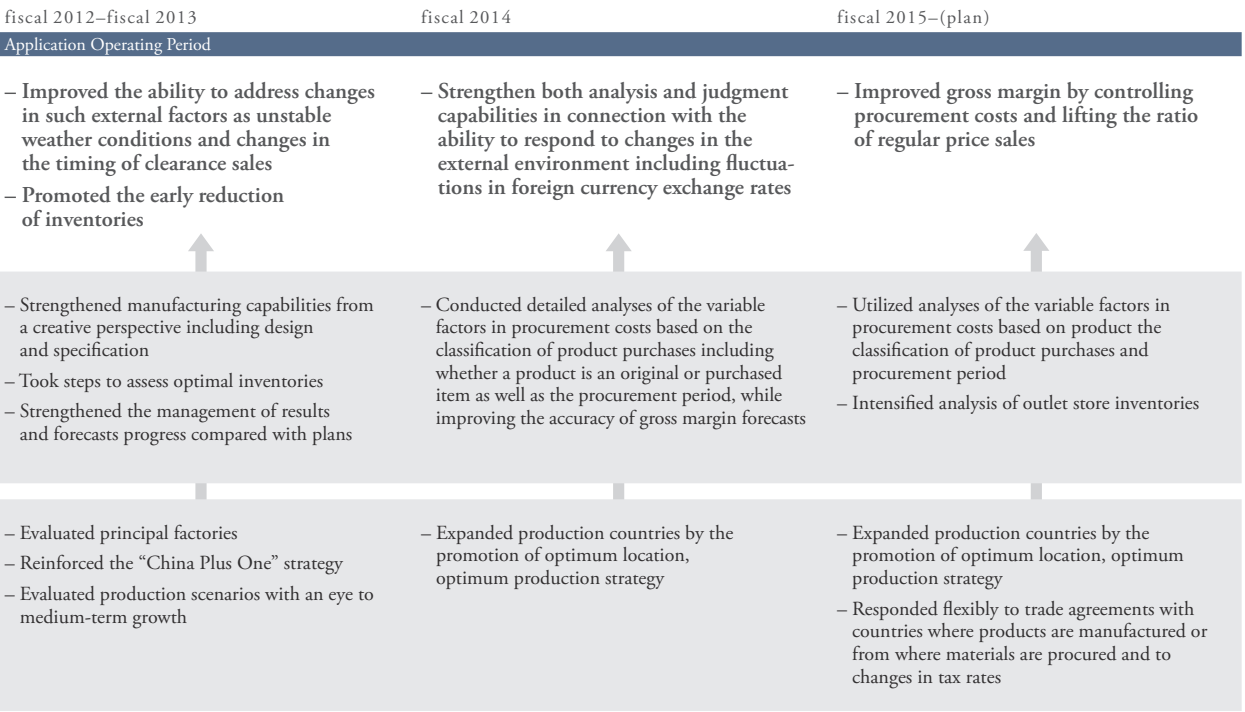
The production platform works to formulate the product procurement and production strategies that take us from merchandising planning through to realization. While manufacturing is outsourced, the choice of external plant or factory for each item is based on Companywide information on procurement regarding materials as well as the manufacturing plant. Accordingly, this has led to positive adjustments in procurement costs relating to

purchases and production as well as lead times in a way that satisfies the five key criteria^{*2}.

UNITED ARROWS LTD. commenced the shift to a merchandising platform in earnest in the fiscal year ended March 31, 2007. In the ensuing period, the Company has reinforced a variety of initiatives aimed at better monitoring, analyzing, as well as visualizing and standardizing operating processes with respect to such important indicators as gross profit, the sales ratio, and the residual inventory ratio. Turning to the product platform, we have taken steps to share factory information held by each business, select and evaluate principal business partners, and bolster collaboration.

As a result, and with each passing year, we have successfully improved the precision of our planning proposal, verification, product procurement, and inventory reduction capabilities while better engaging in flexible inventory control in line with the status of sales. Moreover, there are clear indications that we are steadily fortifying an operating foundation that is relatively unaffected by such external factors as delays in seasonal sales attributable to inclement weather conditions and shifts in the timing of clearance sales. Furthermore, these efforts are generating surefooted results, with steady improvements in key benchmarks including gross profit margins and inventory efficiency.

^{*2} Five key criteria: Customers can purchase (1) the products they want, (2) when they want, (3) where they want, (4) in the quantities they want, and (5) at the prices they want.



Responding to changes in the external environment

In the fiscal year ended March 31, 2014, severe external factors included unseasonable weather conditions, a staggering or prolongation of seasonal clearance sale periods as well as the rapid depreciation of the yen. The fall of the yen was a particular contributory factor in rising procurement costs, and since these significantly affected gross profit margin, there was an urgent need for remedial action. The Company conducted detailed analyses of

the variable factors in procurement costs and worked to keep the costs at an appropriate level by modifying procurement plans according to exchange rate, labor cost, and material price circumstances. By implementing sales policies in accordance with the prevailing situation, we endeavored to achieve our gross profit margin plans. As a result, non-consolidated gross margin decreased 1.0 percentage point compared with the previous fiscal year, to 52.9%, and gross profit exceeded that initially planned.

