UNITED ARROWS LTD. First Quarter Fiscal 2014 Earnings Announcement Q&A

UNITED ARROWS LTD. held an earnings announcement presentation attended by the mass media, analysts, and institutional investors on August 5, 2013 and August6, 2013. Details of principal questions received and answers given by category during each session are presented as follows. Certain details have been expanded or modified to provide readers with a deeper understanding of the UNITED ARROWS Group's performance and activities.

An Overview of Operating Conditions and Performance in the First Quarter (April 1, 2013 to June 30, 2013) of Fiscal 2014 (April 1, 2013 to March 31, 2014)

Q. Please provide us with an update on progress compared with plans in the first quarter of the fiscal year under review. What impact has timing differences in the commencement of summer clearance sale periods had on performance?
A. Clearance sale periods commenced at the end of June at a large number of stores this year. As a result, sales were more than ¥750 million higher than plans in the first quarter. At the same time, gross profit was up by more than ¥200 million while selling, general and administrative (SGA) expenses were in line with plan. On this basis, both ordinary income and operating income were around ¥250 million higher than plans. Sales and gross profit in July, however, were below plans. This largely reflected that portion of the shift in clearance sale demand in June. Accounting for these factors, cumulative sales and each earnings category for the April to July period were basically at levels identified under the Group's plan.

Q. Please tell us about the gross margin for the April to May period compared with the previous year.
A. The gross margin for the April to May period in 2012 was 58.3% on a non-consolidated basis. In the corresponding period this year, the gross margin declined 0.1 of a percentage point to 58.2%.

Q. While acknowledging the impact of timing differences in the start of clearance sale periods, looking at July on a stand-alone basis results appear to be a little weak. We would like your views on business conditions in July.
A. On a non-consolidated basis, existing retail and online store sales in July were down 3.9% year on year. Taking into consideration one less Sunday during the month

compared with the previous year, which translates to a negative impact of around 2.0 percentage points, in reality the decline was approximately 2.0%. One factor was the limited amount of clearance sale inventory. Bringing forward the start of clearance sale periods saw a shift in demand in June. While existing retail and online store sales climbed 10.3% year on year in June 2013, this upswing resulted in scant high summer items in July. As one example, the rate of sales growth at BEAUTY&YOUTH UNITED ARROWS (BY) for the first quarter was approximately 10%. The rate of inventory growth, on the other hand, was around 8% as of the end of the first quarter. In similar fashion, the rate of UNITED ARROWS green label relaxing (GLR) sales growth improved approximately 15% against an increase in the rate of inventory growth of around 10%. As a result, both BY and GLR experienced clearance sale inventory shortages in July.

Turning to gross profit, clearance sale periods commenced around mid-July at a large number of stores in 2012. As a result, the gross margin was relatively high during the first half of the month falling thereafter. This year, a large number of stores commenced clearance sale periods from the end of June. Accordingly, the gross margin began to decline from the first week of July. Then again, a clearance sale mode lingered through to August in 2012, which led to a low gross margin. This year, clearance sale periods finished relatively early with later summer and early fall product proposals introduced from the beginning of August. By the end of Japan's summer holiday period, the vast majority of businesses had launched fall items. Plans are in place to reduce mark-down losses in August on a year-on-year basis by promoting the sale of late summer and early fall items at suggested prices.

Q. What are the reasons behind the drop in earnings in the first quarter of the fiscal year under review? Is it the impact of fluctuations in foreign currency exchange rates or the result of bringing forward the start of clearance sale periods?
A. Earnings in the first half of the fiscal year under review are forecast to decrease while increasing for the full period. In the first half, a substantial number of large-scale stores are being opened. The subsequent increase in store opening costs is the principal cause for the decline in earnings. In the second half and for the full fiscal year, earnings are projected to increase.

Q. What are the factors that are expected to contribute to an increase in earnings in the second half?
A. Buoyed by the robust operating results in the previous second half, anticipating costs

including the purchase of furniture and fixtures, advertising and promotion as well as maintenance and repair expenditures have been introduced. There are no plans at this stage to introduce anticipatory costs in the second half of the fiscal year under review resulting in a favorable structure for increasing earnings. We are also conducting a thoroughgoing review of products from this fall and winter to move away from the over-emphasis on products that generated positive result in the previous fiscal year. We are taking measures aimed at raising the fixed price sales ratio. The projected effects of these initiatives are incorporated into the forecast recovery in profits in the second half.

The Impact of the Weak Yen and Countermeasures

Q. To what degree is the weak yen affecting gross profit?
A. The bringing forward of clearance sale period starting dates and the weak yen have affected gross profit in the first quarter of fiscal 2014 on a non-consolidated basis. Mark-down losses have improved in April and May compared with the corresponding months of the previous fiscal year. While the gross margin was in an upward trend, the level fell in June due mainly to the bringing forward of clearance sale period commencement dates. As a result, the positive gains in April and May were negated in June. For the first quarter of fiscal 2014 as a whole, the gross margin declined 1.2 percentage points to 56.6%. At the same time, the cost of goods purchased ratio climbed 1.3 percentage points in the first quarter. This was almost entirely attributable to the weak yen. With the exception of CHROME HEARTS (CH), the Group has not undertaken any review of prices across any of its businesses. Accordingly, the weak yen has had an impact at the time of each additional product introduction.

Q. Will there be any change to the Group's policy not to employ foreign currency exchange forward contracts?
A. Foreign currency exchange forward contracts are entered into for the purchase of CH products when volumes can be determined in advance. For all other businesses, spot contracts are utilized at the time procurement plans are decided. While there is the potential to secure a gain on foreign currency exchange forward contracts, there is equal opportunity to incur a loss. As it currently stands, our policy is not to employ long-term foreign currency exchange forward contracts.

Q. Growth in foreign traveler demand has raised a positive flow-on effect of the weak yen. What is the current percentage of foreign traveler demand?

A. Currently, the rate is a nominal 1%. However, growth rates are extremely high. We plan to open a new store in Taiwan in the fall. Expectations are that this will also help boost awareness toward the Company's brand.

Pricing Policy

Q. There are plans to review product prices at COEN CO., LTD. by around 10%. Please tell us about pricing policies at the mainstay UNITED ARROWS (UA), BY, and GLR businesses.

A. When reviewing product prices, every priority is placed on an increase. This priority, however, rests on our ability to secure the acceptance of customers. A review of the prices of products that can be readily compared with competing stores will be deferred with greater emphasis placed on initiatives aimed at curtailing procurement costs. While pricing policies differ from business to business, the general trend is expected to reflect items between light and heavy clothing introduced in September and heavy items launched in October. However, we have no plans to review pricing of some businesses' items including BY women's. This is mainly due to the high proportion of products manufactured in Japan. Currently, each business is considering the ratio as well as degree of pricing review. We are not able to provide specific details.

The Opening of New Stores

Q. Please provide an update on the status of newly opened stores and tell us about the new store opening strategy of COEN CO., LTD.

A. In overall terms, the opening of new stores in the first quarter of fiscal 2014 has been robust. Approximately 80% is proceeding ahead of plans. The Group opened a total of seven new stores in the GRAND FRONT OSAKA, which debuted in April. This is the first time for the Group to take an initiative of this scale and to simultaneously open multiple stores in a single complex.

Recognizing that COEN CO., LTD. placed too great an emphasis on products that generated positive results in the previous year during the spring and summer seasons, COEN CO., LTD. is looking to revamp its lineup for the fall and winter. With a view to focusing on efforts that enrich its products, COEN CO., LTD. is adopting a stringent approach toward the opening of new stores. COEN CO., LTD. will introduce new brands from the fall and winter and place the utmost emphasis on delivering new items to customers.

Online-Related Operations and Activities

Q. Is the low rate of online sales expansion a strategic maneuver?
A. Online store sales are slightly below plans reflecting a low rate of expansion. Online store sales are divided into high rates of mall sales expansion and mall sales that have fallen on a year-on-year basis. Malls that have enjoyed growth in new store brand opening are witnessing a move toward lower prices. Products in the Company's mid-to-high-end price range are becoming more difficult to choose. In addition, the Company is experiencing lost opportunities due to stock shortages, issues that must be addressed in the future.

Subsidiary Companies

Q. Is it safe to assume that COEN CO., LTD.'s operating income will reach forecasts for the fiscal year under review?
A. Looking at results compared with forecasts by subsidiary company in the first quarter of fiscal 2014, UNITED ARROWS LTD. is in line with forecasts, FIGO CO., LTD. is slightly below forecasts, and COEN CO., LTD. has failed to meet forecasts. The overall shortfall by subsidiary companies to match plans, however, has been offset by the profits generated by UNITED ARROWS LTD.. While steps are being taken to reassess COEN CO., LTD. operating income for the full fiscal year, in the event that the company's profits fall short, UNITED ARROWS LTD., which accounts for more than 90% of consolidated ordinary income is expected to cover any deficiency.

Overseas Operations

Q. Plans indicate that the Group will undertake ¥200 million in Taiwan-related investment. When will this expenditure take place?
A. Investments are scheduled to commence from the second quarter of fiscal 2014. No major costs relating to overseas expansion are included in the first quarter.

Q. What time frame are you looking at before the subsidiary in Taiwan turns a profit?
A. Looking at internal standards relating to the launch of new businesses in Japan, profits are generated from the third year with any cumulative losses cleared in the fifth year of operation. While we cannot comment specifically on when the subsidiary in

Taiwan will turn a profit, we are looking at a longer term compared with the domestic standard due to a variety of factors.

Other

Q. What specific countries do you have in mind in connection with the “China Plus One” strategy?
A. Looking at the ratio of manufacturing countries as 100%, Japan accounts for 35%, China for 55%, and the remaining 10% other than China refers to ASEAN countries. Vietnam accounts for the largest proportion of this 10%. Other than Vietnam, and in addition to India, Myanmar, Bangladesh, South Korea, Thailand, Indonesia, and Cambodia, we are cultivating opportunities in the inland regions of China. Currently, Vietnam is considered the next most promising base. While it is yet to reach the level of China, the entry into Vietnam by Japanese garment manufacturers is steadily building an operating environment that will meet the quality needs of the Company. Having said this, Japan and China will remain as our principal bases.

Q. Since entering the fiscal year under review, have there been any further changes with respect to the use of the product platform?
A. Basically, we have continued to advance activities undertaken to date. Complementing these activities, we have increased the local procurement of materials in connection with the manufacture of products in China and are linking this endeavor to reductions in the ratio of costs. Because of the over-emphasis on products that generated positive result in the previous fiscal year, the fixed price sales ratio in the second half of fiscal 2013 declined 5.0 percentage points and the gross margin decreased 1.0 percentage point. If we are able to return the fixed price sales ratio to the level recorded in fiscal 2012, then the gross margin will improve around 1.0 percentage point. However, an improvement of 1.0 percentage point is not enough to cover the effects of the weak yen. Accordingly, we will consider reviewing prices at the same time.

Q. On page 14 of the earnings announcement materials, you identified BY women’s as an example of success. Why did category separation succeed?
A. We decided to adopt category classifications taking into consideration the wide-ranging needs of customers in the women’s category. We picked up customer needs form all stores and undertook product development linked to each category. There were similar results for Another Edition (AE) in fiscal 2013. While the AE market is narrower

compared with BY, product development in line with needs analysis was nevertheless a success. The case of BY drew in this example. On this basis, we will apply this case study to UNITED ARROWS and GLR.