UNITED ARROWS LTD.

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Third Quarter Fiscal 2015 Earnings Announcement Q&A

UNITED ARROWS LTD. held an earnings announcement presentation attended by the mass media, analysts, and institutional investors on February 5, 2015 and February 6, 2015. 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 Performance in the Third Quarter Cumulative Period (April 1, 2014 to December 31, 2014) of Fiscal 2015 (April 1, 2014 to March 31, 2015)

Q. The general decline in the number of customers visiting stores is an issue that appears to be affecting the industry as a whole. Are you contemplating any measures to increase customer numbers?
A. The industry as a whole is indeed witnessing a decline in the number of customers visiting stores. While promoting measures aimed at increasing customer numbers, our attention is focused more on trends in purchase rates. Conscious of cases where visits to stores fail to produce a purchase, we are looking to complement store and online efforts to attract customers with customer service initiatives in a bid to lift purchase rates.

Q. How much of an impact has the weak yen had on profits? What are your projections for the fiscal year under review?
A. From a profit perspective, we take into consideration a combination of factors. In addition to costs, we incorporate a variety of factors including the fixed price sales ratio when determining profit forecasts. We are unable to calculate the level of impact based solely on fluctuations in foreign currency exchange rates. During this fall and winter, costs increased due to the weak yen and other factors. In addition, the fixed price sales ratio declined. Collectively, this had a negative impact on gross profit. While we are taking steps to identify forecasts for FY16 based on current foreign currency exchange rate levels, we are also adopting the goal of increasing the fixed price sales ratio. Working toward these goals, we will undertake a variety of measures. As one example, we will adopt a revised season segmentation approach in a bid to welcome customers with a constant stream of fresh and appealing products.

Q. What are your thoughts on this year's fall and winter clearance sales compared with the previous year?
A. Customer motivation toward purchasing new items was short-lived during this year's fall and winter clearance sales periods. While customers queued waiting for roadside stores to open their doors on January 2, the first day of the New Year clearance sale period, customer motivation notably leveled off from the second day.

Q. Can you provide us with a breakdown of 3Q business unit gross profit? Is the forecast decline in the 4Q the result of increased markdowns?
A. Our analysis of gross profit is broken down into four areas.
1. Excluding CHROME HEARTS, the increase in product costs has had a 0.5 of a point negative impact on gross profit. The impact of an increase in the share of products with low gross profits including well-known brands is significant.
2. The price increase in CHROME HEARTS' products in June has had a 0.2 of a point positive impact on gross profit.
3. An increase in the share of purchased products has had a 0.1 of a point negative impact on gross profit.
4. Markdown losses have had a 0.7 of a point negative impact on gross profit.
These factors have collectively had a 1.1 point negative impact on gross profit. We believe that any rapid improvement will be difficult to achieve in the 4Q. Our forecasts are based on the assumption that existing trends will continue.

Q. Are sales results for January reflected in the Company's recent revised forecasts?
A. A number of factors including trends in January were taken into consideration when formulating revised forecasts. While a high hurdle has been set for sales from February and beyond, we will continue to pursue forecast profit levels through adjustments to selling, general and administrative expenses and other measures in the event there is a slight decline in sales.

Q. In your explanation of 3Q FY15 earnings, you have identified the review of merchandising policies, the review of pricing strategies, and the promotion of a reduction in inventory as three improvement measures going forward. Have you carried out these measures or will you now initiate implementation? When will the benefits of these measures begin to emerge?
A. Looking at the Company's merchandising policies, we have adopted an 8-season merchandising policy from this spring and summer mainly in the UNITED ARROWS green label relaxing business, which has a higher private label product ratio. For other businesses with a higher purchased product ratio, we have also commenced steps in the area of private label brands. We anticipate the benefits of these measures on profit and loss will emerge from

fall and winter of this year. We began a review of pricing strategies from this spring and summer. Here, we are looking to maintain a balance between products where prices should be increased, left unchanged, and decreased. We have already commenced steps to promote a reduction in inventory. These efforts will have an effect on profit and loss from the fiscal year under review and over the next fiscal year.

Q. Will the number of items change as a result of adopting an 8-season merchandising policy?
A. Among those products currently on offer, there is considerable similarity and overlap. There are signs that some of these overlapping items are slow to sell. We do not envisage any major increase in number of item due to efforts aimed at assessing and streamlining the number of items.

Q. Are there any risks associated with the Company's decision to adopt an 8-season merchandising policy? Looking at the presentation materials from your earnings announcement, it would appear that the length of the winter season is quite short.
A. We took many steps before adopting an 8-season merchandising policy. This included lengthy in-house deliberations. We decided to maintain a single winter season. This decision recognized the risks associated with further segmenting the season to include a separate cold winter category in the event of a warm winter. Cognizant of the increasingly prominent global warming trend, we have decided to breakdown summer into three separate segments. This initiative acknowledges the growing length of the summer season and the Company's focus on constantly providing customers with a fresh lineup of products. While we have not conducted market tests in the past, our policy regarding season segmentation is based on customer trends to date.

Q. Can you tell us about the status of spring and summer as well as fall and winter inventories as of the end of the fiscal year under review?
A. From the fiscal year under review and over the fiscal year ending March 31, 2016, we are projecting a reduction in surplus inventory of around ¥2,000 million. This reduction is mainly comprised of items prior to last year's fall. Thanks largely to efforts aimed at controlling inventory from the 2Q of FY15, we have held the balance of winter item inventory to slightly above 80% of the level recorded last year. While we will also reduce a portion of inventory in the 4Q of FY15, the vast majority will occur during FY16. Taking into account the negative impact on gross profit of events and sales costs as well as the costs associated with inventory reduction including the disposal of products, we estimate a maximum expenditure of between ¥500 and ¥600 million. We are assessing a broad spectrum of factors as we put in place forecasts for the fiscal year ending March 31, 2016.

Q. Are you holding down procurement for this spring and summer? What are your thoughts on the total procurement amount?
A. We are limiting the launch of products at the start of the season to around 90% of the levels recorded last year this spring and summer. By reducing product launch budgets for the start of the season and redirecting resources to the launch of additional hot-selling items, our policy is to limit any increase in final inventory. However, we will take care to make all necessary adjustments with an eye to maintaining overall balance. This reflects the lessons learned from holding down the procurement of clearance sales products for this fall and winter, which led to a deficiency in inventory.

Q. In reviewing pricing strategies, you identified the existence of an expected and appropriate price range for each brand. What are your thoughts on the setting of prices from spring and summer and beyond?
A. For certain products, we were able to gain the support of customers even after an increase in prices. This was largely due to our success in raising the value of products by reviewing materials, carefully selecting production facilities, and adopting various other measures. For longstanding favorites such as business shirts for example, where replacement demand is high, we learned the valuable lesson during this fall and winter that customers held strong expectations toward the pricing of each brand. We are now more acutely aware that there are certain products that will retain the support of customers even after an increase in price, and other products, mainly comprising longstanding favorites, where customers’ expectations regarding price are far more severe. Moving forward we will work to strike a balance between products where prices should be restored to prior levels, products where prices should remain unchanged, and products where prices can be raised through improved value.

Q. You mentioned that there were internal factors that contributed to the current slump in business performance. Is this a structural or an operational problem?
A. Rather than a deterioration in our structure as a result of age, we believe that the current downturn in our operating results is due to a weakness in our operations. From an internal perspective, we feel that the Company has been slow to recognize and respond to trends in customer behavior. As a result, we will again review efforts aimed at seriously confronting customer needs at a core component of our management policy in FY16. Our greatest regret is our inability to pick up on and address customer trends and changes in behavior. The measures that we have outlined are designed to realize improvements based on the lessons that we have learned.

Q. Can you provide us with any update on your Medium-Term Business Plan from the perspective of the Group's business performance?
A. There is a chance that we may temporarily back away from sales and profits while maintaining our ROE target after taking into consideration our recent operating environment. We will provide details once a direction has been determined.

About the Closure of THE HIGHWAY STORE UNITED ARROWS LTD. Stores

Q. What are your reasons for closing THE HIGHWAY STORE UNITED ARROWS LTD. stores?
A. The UNITED ARROWS Group currently maintains multiple new businesses and SBUs. One reason for the closure is the emphasis that we are placing on the selective and focused allocation of management resources. While the same department is in charge of both THE HIGHWAY STORE and THE STATION STORE operations, each has a different customer base. In this area of our operations, we are also experiencing issues regarding costs vis a vis benefits as well as the precision of merchandising. Furthermore, we see little possibility of opening new expressway stores at locations of our own choice. Taking each of these factors into consideration, we came to the decision to close stores.

Q. The UNITED ARROWS Group maintains stores in such transport facilities as airports and railway stations. Please tell us about business in each field.
A. Operations at stores located within airports are firm. Awareness toward our network of airport stores as a convenient place to purchase essential items prior to departure is well established. In addition, we are experiencing an increase in inbound demand. In our railway station store operations, we are seeing solid sales of items that are in urgent demand during such periods as a sudden downpour of rain. At the same time, we are seeing sales as a result of aggressive efforts to promote clothing items.

About Inbound Demand

Q. Tell us about robust businesses and areas in the context of inbound demand.
A. Duty free sales for the 3Q of FY15 were approximately ¥1,700 million on a non-consolidated basis. This was 70% higher than the corresponding period of the previous fiscal year and accounted for roughly 2% of total non-consolidated sales. More than 60% of this total was in the CHROME HEARTS business. By area, demand in the Ginza district and at airports was high. Here, there are also stores that account for 20-30% of sales.

Q. What measures will you pursue to capture inbound demand in the future?
A. More than 120 stores, or roughly half of our non-consolidated network, engage in duty free sales. While we will continue to increase this number, we hold extremely high expectations for shopping centers where there are indications that a wide variety of initiatives will be taken. In the CHROME HEARTS business, we have conducted language training for some time and are strengthening our ability to meet the needs of foreign tourists visiting Japan. Looking ahead, we plan to promote this initiative across the Company as a whole. We also plan to appeal to foreign media, distribute shopping maps to foreigners visiting Japan, and promote introductions from our Taiwan store.

About Online Sales

Q. What are the reasons behind the growth in online sales, which is quite prominent?
A. Casual and sportswear trends continued from spring and summer last year and over fall and winter. The relatively large lineup of products that can easily be purchased online was one factor in driving robust sales. As a part of the Company’s 25th anniversary celebrations last year, UNITED ARROWS LTD. rolled out an array of items in collaboration with well-known brands. Given the popularity of these high-sought-after items, there was a strong tendency for customer to secure their purchase through online store advance order events. This in turn spurred an increase in online sales. There are also indications that the ratio of customers using online stores at the time of clearance sales is increasing.

Q. Tell us if you have any online business strategies going forward?
A. In addition to expanding online store sites that are linked to distribution center inventory information, we are implementing measures that allow actual and online stores to share inventory through UNITED ARROWS LTD. ONLINE STORE. Moreover, UNITED ARROWS LTD. ONLINE STORE commenced an online site service in November 2014 that allows customers to compare the sizes of products currently on sale with those purchased in the past. Through these means every effort is being made to enhance convenience.

About the Acquisition of the Company’s Own Shares

Q. UNITED ARROWS LTD. has announced details of the acquisition of its own shares. Can you tell us what steps you will take after acquisition?
A. Specific details are yet to be determined. We will pursue a number of options including M&A should an effective opportunity arise. Otherwise, we will look toward retiring treasury stock.

Q. Will the acquisition of the Company's own shares depend on efforts to achieve the ROE target of 20% or more in any given fiscal year? May we assume that this ROE target is a high management priority?
A. Over the course of our Long-Term Vision and Medium-Term Management Plan, our goal is to achieve an ROE target of 20% or more. To ensure that our ROE does fall below this target during the intervening fiscal years, we are envisioning the acquisition of own shares. While our primary goal remains the improvement of operating results, we will continue to implement these types of measures while paying careful attention to our financial position and conditions.

Q. Based on the maximum limits set for the number of own shares to be acquired and the acquisition amount of 2,400,000 share and ¥6,000 million, respectively, the price of each share comes to ¥2,500. On what grounds do you base this computation?
A. We have placed a priority on the acquisition amount with an eye toward improving ROE for this acquisition of the Company's own shares. The upper limit for the number of shares to be acquired has been generously set to enable the maximum acquisition of ¥6,000 million even in the event of a reasonable decline in the share price. For this reason, the number of own shares acquired may fall below 2,400,000 shares even in the event of a final acquisition amount of ¥6,000 million.

About Subsidiary Companies

Q. The 3Q FY15 results for FIGO CO., LTD. appear weak. Can you elaborate on the progress made by the company as well as other subsidiaries?
A. FIGO continues to struggle due mainly to the increase in Felisi product prices. Looking ahead, the company will incorporate feedback gleaned from customers into its product development activities. At the same time, energies will be channeled toward gaining the support of customers even at current prices. Results at COEN CO., LTD. remain strong. Our Taiwan subsidiary still operates at a loss. However, progress is essentially in line with plans.

Q. Tell us about the status of business in Taiwan and your plans going forward.
A. The UNITED ARROWS TAIPEI store undertook a review of its merchandise in line with customer trends at the time of its 1st anniversary in October 2014. From an operating perspective, business remains steady. In specific terms, the product mix is approaching the lineup currently marketed at the UNITED ARROWS HARAJUKU FOR MEN. Steps have also been taken to roll out the UNITED ARROWS & SONS concept corner. In particular, the abundance of products that are generating substantial interest is matching the needs of customers. Operations are progressing in line with plans especially for men's items. We are

also seeing the BEAUTY&YOUTH TAIPEI store reach a merchandising turning point. We believe that this store follow the pattern of the UA store around its 1st anniversary. We have also initiated a revision of prices. While the Company has not set prices at overly high levels, there are certain areas where customers would feel that prices are a little steep when comparing prices in terms of the value of the yen against the Taiwan dollar. As a result, we will revise the prices of certain products. While we continue to consider opening new stores in Taiwan, our efforts in countries other than Taiwan remain at the market survey stage.

Q. What would you say are COEN's strengths compared to its competitors?
A. We are confident that the company maintains a competitive advantage across a variety of areas including customer service and the quality of its products.

Q. What is COEN's status in terms of its profitability? Can you provide us with an update on future targets?
A. We prefer not to comment on the profitability of subsidiary companies. In overall terms, however, COEN is projected to experience an improvement in profitability. The company is forecasting an increase in both revenue and earnings in the fiscal year under review compared with an increase in revenue and decrease in earnings in the previous fiscal year. We are currently evaluating profitability from a medium to long-term perspective.

Q. Do UNITED ARROWS LTD. and COEN partially share in a common product platform?
A. While both companies maintain a commitment to the reduction of inventory, this common thread does not extend to the procurement or materials or production facilities. This difficulty in sharing procurement channels and production facilities is attributable to disparities in the pricing ranges of each company's products.

Outlook for the Fiscal Year Ending March 31, 2016

Q. Can you provide us with your outlook for FY16? Can we assume that the 1H will be difficult due to the impact of inventory initiatives and the weak yen, with a recovery to emerge from the 2H?
A. We are currently taking steps to put on paper our forecasts for FY16. Accordingly, we are not currently in a position to provide details for the 1H and 2H of FY16. As far as we can predict, we are anticipating a slight increase in earnings for the full fiscal year owing mainly to the effects of inventory disposal and the weak yen.

Q. What are your thoughts on gross profit in FY16? You mentioned that customers have turned away because of the revision in product prices. Taking into consideration the decline in the value of the yen, won't you have to revise prices in order to offset the negative impact of fluctuations in foreign currency exchange rates?
A. We will reset prices after taking into consideration the expectations of customers regarding prices ranges for each brand. Rather than implement a uniform price reduction across the board, we will strike a balance between items where prices can be increased, items where prices will remain unchanged, and items where prices can be decreased. We are also looking to offset the increase in costs attributable to the weak yen by adopting a selective approach toward product purchasing and lifting the fixed price sales ratio. While we are unable at this point to provide a final forecast for gross profit, we will endeavor to link growth in operations where profitability is high including BEAUTY&YOUTH UNITED ARROWS, UNITED ARROWS green label relaxing, and online stores to an increase in revenue.

Q. Currently, you are working to limit the opening of stores in new businesses. What direction will you take in FY16 and beyond?
A. We do plan to open new store in certain businesses. Details will be provided when a specific announcement can be made. We are currently promoting a variety of measures including the review of merchandising in other businesses. Until we see a clear direction emerge from these measures, we do not intend to open new stores. ASTRAET and BOW & ARROWS products are also marketed at certain UNITED ARROWS stores. We will continue to promote this approach in the hope that this will lead to improved visibility and market awareness. We are also considering sales of EN ROUTE products at certain UNITED ARROWS stores. As we have in the past, we will market new business brands through existing stores. We recognize that this is the best method for eventually opening new stores on an independent basis.