UNITED ARROWS LTD.
Earnings Announcement Q&A
for Fiscal 2017, the Fiscal Year Ended March 31, 2017

UNITED ARROWS LTD. (or, "the Company") held earnings announcement presentations on May 8 and 9, 2017, at which the media, analysts, and institutional investors were in attendance. The principal questions received and answers given by category during each session are presented as follows, with certain details expanded or modified in an attempt to provide readers with a deeper understanding of the UNITED ARROWS Group's performance and activities.

Business Results for Fiscal 2017, the Fiscal Year Ended March 31, 2017 (April 1, 2016 to March 31, 2017)

Q. Can you provide details regarding the makeup and status of inventory?
A. Inventory increased 9.4% YoY on a consolidated basis. The rate of growth on a non-consolidated basis after excluding CHROME HEARTS (CH) was also the same. Past products prior to the previous year's spring and summer were held to around the same level as the end of FY16. Inventory growth largely comprises the previous year's fall and winter items as well as this year's spring and summer products currently for sale. With spring and summer products largely sold through physical and online stores, and the previous year's fall and winter items marketed through outlet stores, we anticipate that the negative impact on operating results will be minor.

Q. What are the growth rates and composition of the previous period's online sales by site?
A. Looking at the growth rates and sales ratios of major sites, ZOZOTOWN increased roughly 33% while accounting for around 60%; UNITED ARROWS LTD. ONLINE STORE (UA ONLINE STORE) climbed approximately 13% while taking up about 20%; Rakuten BRAND AVENUE surged around 65% while comprising just under 5%; i LUMINE expanded roughly 20% while accounting for more than 4%; and MAGASEEK increased approximately 7% while making up less than 4%. Despite what would appear low UA ONLINE STORE growth on a full fiscal year basis, the rate of upswing increased in 4Q.

In fact, UA ONLINE STORE growth came in at 22.9% in April 2017 compared with 23.9% for total online sales. This suggests that the effects of the point program revision and redesign of the site are gradually beginning to emerge.

Business Results Forecasts for Fiscal 2018, the Fiscal Year Ending March 31, 2018 (April 1, 2017 to March 31, 2018)

Q. The SGA expenses to sales ratio in fiscal 2018 is projected to come in at roughly the same level as the period under review. On what do you base this forecast?

A. While it is difficult to provide an accurate analysis due to the splitting off of the CHROME HEARTS business, we believe that personnel expenses will have the same significant impact as the period under review. While positive steps were taken in fiscal 2017 to recruit personnel, there are a number of vacant positions that still need to be filled. Our forecast incorporates the expenses required to fill this void. Carrying on from the period under review, we will continue to restore promotion rates to their original levels. We will also increase the starting salaries of newly hired mid-career employees in a bid to reinforce recruiting activities. These and other factors underpin our assessment toward trends in the SGA expenses to sales ratio. Having said this, however, our policy is to control SGA expenses while monitoring movements in sales and gross profit throughout the period.

Q. The amount of extraordinary loss is quite substantial. What are your underlying assumptions?

A. After conducting a thoroughgoing review, we plan to identify and determine which underperforming businesses and stores to close. The costs associated with this process have been factored into our forecasts as an extraordinary loss. Moreover, we expect to see a growing number of stores subject to impairment losses as a result of poor performances in the period under review.

Q. Forecasts for fiscal 2018 indicate a decrease in earnings in 1H and an increase in 2H. This mirrors the trend in the period under review. Looking at the hurdles of the previous year, the reverse would appear to be true. What are your reasons for this forecast?

A. Compared with plans to open 22 new stores on a consolidated basis this year, we have already opened nine stores to date. As a result, we have seen a concentration of costs in April. Moreover, we anticipate that existing retail and online store sales growth will slightly weaken in 1H of fiscal 2018 on a non-consolidated basis. In specific terms, we are projecting YoY increases of 2.4% and 3.6% in 1H and 2H, respectively. In the period under review, inventories of summer clearance sale products increased owing to delays in spring and summer trends. Operating results in fiscal 2018 are currently in line with forecasts. Clearance sales are projected to fall short of last year's levels where results grew substantially in July 2017. Taking into account the effects of the aforementioned factors, earnings in 1H are projected to decline in similar fashion to the period under review.

Q. Sales increased in fiscal 2017 due to the additional allocation of inventory to online stores. To what degree will you increase the allocation of inventory in fiscal 2018?

A. The allocation of inventory is determined in line with sales forecasts. Online sales are projected to climb 13.4% in fiscal 2018 on a non-consolidated basis. The allocation of inventory will be conducted in line with this projection.

Q. How were market trends during the 2017 spring and summer seasons as well as the Golden Week holiday period?

A. The spring season this year progressed around three to four weeks later than in previous years due to the weather. Purchases of spring items finally began to pick up in earnest as temperatures rose in April. Meanwhile, sales were robust in areas that are less susceptible to the weather such as new lifestyle as well as ceremonial demand. In order to quickly reduce inventories of spring items that were slow to move in February and March, we are marking down prices and taking steps to avoid excess stock.

Our Medium-Term VISION

・ Establish a robust management platform

Q. What is the scope of your efforts to identify underperforming businesses and stores?

A. This matter is currently under consideration, and we are unable to comment on the scope of our efforts including the number of stores to be closed. While our focus has remained mainly on the opening of new stores in a bid to secure growth, we will also identify and close underperforming businesses and stores going forward over the medium to long term.

Q. The number of Group-wide stores has hovered around 360 over the past few years. What are your forecasts for the number of stores over the medium to long term?

A. While we have not yet put together a definitive forecast for the number of physical stores, we do not envisage substantial growth in the future. We do acknowledge that there is still ample room for the opening of new stores in the basic trend-conscious and new basic trend-conscious markets and will assess opportunities in the trend-conscious market going forward. We do see a shift in demand to online stores across all markets and anticipate any movement in the number of physical stores will be held to a small increase.

・ Expand online sales activities by harnessing the strengths of physical stores

Q. To what degree do you plan to increase the share of UA ONLINE STORE sales?

A. We are looking to continue double-digit percentage growth at UA ONLINE STORE going forward. However, we do not have a specific composition target. If we were to equate UA ONLINE STORE with a physical store, we would view UA ONLINE STORE as a stand-alone store and other company online malls as shops that opened in shopping centers and fashion buildings. We intend to promote both in tandem.

Q. Products that are exclusive to the online sales channel are experiencing growth. How many of these products are there and to what levels do you plan to increase the lineup?

A. UA ONLINE STORE currently markets around 15,000 products. Roughly 300, or 2%, of this total are exclusive to the online sales channel. While we do see ample room for expansion, we have not at this stage identified a specific target for the number of exclusive items. We intend to take the necessary measures while closely monitoring conditions.

Q. How much higher is online store profitability compared with physical stores?
A. We are unable to disclose specific numerical data. However, we can confirm that online store profitability is indeed higher than that of physical stores on an operating income basis. While the ratios of miscellaneous as well as clearance sale items are high contributing to a low gross margin, the ratio of sales management expenses to total sales is lower than that of physical stores due to the limited nature of personnel expenses and other factors.

・ Respond to changes in the market

Q. Your plan is to expand growth in the new basic trend-conscious and basic trend-conscious markets. What do you expect will happen to the sales compositions of each market?
A. The amounts of the Group's new basic trend-conscious and basic trend-conscious market sales are currently estimated at ¥10 and ¥30 billion, respectively. We believe each market will grow depending on changes in the external environment. We have not yet identified any specific numerical targets.

Q. The new basic trend-conscious market has been identified as the domain of COEN CO., LTD. Does this mean that COEN will assume responsibility for the development of new brands and businesses?
A. COEN will drive efforts in the new basic trend-conscious market, which includes the development of new businesses, while UNITED ARROWS LTD. will look after the basic trend-conscious market.

Q. As far as the product platform is concerned, plans are in place to build a mechanism for the management and control of the value chain as a whole. Can you provide us with details?
A. To date, our product platform operations have encompassed the

management of product planning through production to the introduction of products to physical stores as well as online stores and sales. Decisions regarding the concept, positioning, and target market for each brand were entrusted to the relevant business. Effective from the period under review, we have put in place a portfolio that positions all of the Group's brands, including subsidiary companies, on a grid matrix according to price range (vertical axis) and fashion tastes (horizontal axis). At the same time, we redefined each brand target's customer base. In this manner, we believe that we can eliminate any inaccuracies in the planning and development of products from the perspective of customers' tastes. With a view to further bolstering our product platform in the future, we will build on this brand portfolio and the setting of targets to promote total management and control over product planning, production, release, and sales. Our goal is to increase the accuracy of our product planning by engaging in management that combines both qualitative and quantitative information. Moreover, we are taking steps to set up a virtual store with the same product mix as offered by physical stores in the green label relaxing (GLR) business at our headquarters. In doing so, we are putting in place a framework through which to ascertain the actual status of frontline stores in real time. By creating an environment that mirrors physical stores within the Company, we are better placed to gain a direct feel for our customers and to issue directives regarding such wide-ranging matters as markdowns and early delivery on a weekly basis.

- Expand points of contact with customers

Q. Which fields in particular are you targeting when expanding domains?
A. We are currently focusing on the clothing and miscellaneous item fields as well as certain lifestyle goods. As a first step, we will upgrade and expand lifestyle products. Turning, in particular, to the female demographic, fashion and beauty including such items as cosmetics are now held in equal standing. We plan to consider opportunities in each field over the long term. As far as the housing sector is concerned, we are also currently engaged in the sale of furniture in collaboration with real estate companies. While the scale of these operations still remains limited, we are looking to form external partnerships going forward. In the recreation field, we recognize the

important need to provide venues and to put in place the necessary environment. With this in mind, we will start by delivering event space and opportunities that will enhance the enjoyment of customers at physical stores. We already conduct events that focus on the participation of customers. While the scale of these events falls short of full-fledged commercialization, we will initiate steps to gradually upgrade and expand.

- Medium-term results guidance and long-term KPIs

Q. You have identified a medium-term target for ordinary income. What are your reasons for not disclosing a target for net sales?

A. We do maintain an internal target for net sales on a provisional basis. Given our current direction and steps to identify underperforming businesses and stores over the medium-term, the possibility exists that the rate of sales growth will slow on a temporary basis. As a result, we have decided to forgo disclosing a sales target in this instance. Rather than net sales, we have decided to focus on other areas including profitability.

Q. Taking into consideration the difficulties associated with sustainable growth, is there a risk of cutbacks in essential future investments? Are you planning to secure investments from a long-term perspective, despite the burden of weak operating results?

A. UNITED ARROWS LTD. has identified five core values under its Company Policy. With customer value as our first priority, we will work diligently to increase employee, business partner, social, and shareholder value. While maintaining the integrity of this Company Policy, we will also stay true to efforts aimed at balancing investments with the return of profits to shareholders. Having said this, however, we will expand on our views toward the opening of physical stores to further broaden the scope of our operations.