UNITED ARROWS LTD.

UNITED ARROWS LTD. Fiscal 2013 Earnings Announcement Q&A

UNITED ARROWS LTD. held an earnings announcement presentation attended by the mass media, analysts, and institutional investors on May 8, 2013 and May 9, 2013. Details of the 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.

Fiscal 2014 forecasts

(Existing store sales forecasts)

Q. Please provide us with details of year-on-year forecasts for existing store sales by brand in the current fiscal year.

A. Forecasts for year-on-year existing retail and online store sales are presented as follows.

UNITD ARROWS LTD.	100.9%
UNITED ARROWS (UA)	101.2%
green label relaxing (GLR)	101.6%
CHROME HEARTS (CH)	99.3%
Small Business Units (SBUs)*	99.4%

* The Boisson Chocolat (BC) Department was established on April 1, 2013 as a part of efforts to establish a new business focusing on private label brand BC products sold through Odette é Odile (OEO) online stores, one of several SBUs. Plans are in place for this new business to focus mainly on BC products. As a result, BC product sales are excluded from OEO existing online store sales forecasts. Incorporating BC product sales, year-on-year SBU existing store sales are projected to exceed 100%.

(The impact of foreign currency exchange rates (the weak yen); gross profit forecasts)

Q. What impact do you anticipate foreign currency exchange rates, and in particular the weak yen, will have on the gross margin?

A. In addition to fluctuations in foreign currency exchange rates, movements in the gross margin can be attributed to a variety of factors. These include the mix between or shares of private label brand and purchased products, the country in which products are manufactured, product pricing, the ratio of products sold at listed prices, and any markdowns. It is difficult to reply on the sole basis of foreign currency exchange rates. I would therefore like to explain our strategies in their entirety. Furthermore, we will look to secure a final profit by undertaking cost controls in line with the status of sales and the gross margin.

Under our forecasts for fiscal 2014, we have set the JPY:USD exchange rate at between ¥95 and ¥99. During the second half of fiscal 2013, we placed a priority on reducing inventory. As a result, we have increased the sale of markdown items with the ratio of products sold at listed prices falling around six percentage points compared with fiscal 2012. By restoring the ratio of products sold at listed prices to the level recorded two years ago, we have effectively offset the increase in procurement costs attributable to the weak yen. At the same time, we will utilize our product platform to review each country where products are manufactured and consider changes in the methods and backdrop behind material procurement. Moreover, we will entertain a review of prices by working to enhance quality. Through these measures, we plan to offset the negative impact of the weak yen throughout fiscal 2014 and secure a gross margin on par with fiscal 2013.

The consequences of the weak yen are not all bad. Certain businesses are experiencing sales growth due to the influx of foreign tourists taking advantage of the downturn in the value of the yen. There are expectations that the weak yen will improve business confidence in Japan triggering an upswing in fashion spending.

Q. We would like to confirm your forecasts for gross margins in fiscal 2014 looking separately at first and second half projections. On a non-consolidated basis, the gross margin for the first half of fiscal 2014 is expected to essentially remain unchanged year on year. This is against a first half fiscal 2013 improvement of 0.7 of a percentage point compared with the first half of fiscal 2012. In contrast, the gross margin in the second half of the current fiscal year is estimated to edge up 0.2 of a percentage point compared with the second half of fiscal 2013, which deteriorated 0.9 of a percentage point year on year. Please explain to us your rationale for each forecast.

A. In the second half of fiscal 2013, the downturn in the gross margin was largely attributable to a drop in the ratio of products sold at listed prices. While expectations of improving this ratio are held as the principal reason for a year-on-year upswing, the suggestion that the increase will come in at around 0.2 of a percentage point takes into consideration the impact of a decline in the value of the yen particularly from the second half.

Q. What is your pricing strategy going forward in light of the weak yen and increase in the consumption tax rate?
A. Procurement costs have risen as a result of a decrease in the value of the yen. Turning then to the procurement of products including brand and designer items, our pricing strategy will take into consideration competitor trends. From a private label product perspective, we are contemplating a review of certain prices. Any action taken in this area is based on the understanding that efforts to lift product development capabilities will help facilitate consumers' acceptance toward prices. We recognize that there are difficulties in increasing the current level of product prices depending on the business. We will therefore adopt a systematic approach and work to improve the ratio of products sold at listed prices in order to secure gross profit. In response to an increase in the rate of consumption tax, we saw little or no effect on performance at the time of the last upswing in 1997. While we do not expect that results will play out in exactly the same fashion, we still believe that we can improve consumers' acceptance toward higher prices by enhancing our product development capabilities.

Q. We would like to know more about any forecast transition in the ratio of products sold at listed prices in fiscal 2014. What specific improvement measures do you have in mind?
A. The ratio of products sold at listed prices deteriorated around six percentage points last fall and winter. We will secure gross profits by improving this downturn. To this end, we will engage in a variety of activities, utilizing our atelier to increase the precision of samples and employing the creative resource center to develop products that are defined by their originality. Meanwhile, we will modify the composition of our merchandise and better address the needs of customers at the start of each season and sales expansion period. With each startup, we will place the utmost emphasis on the fresh appeal of stores. We will also boost sales of our core products during sales expansion periods. Our policy therefore is to support our MD mix with attractive stores and VMD initiatives and to increase the ratio of products sold at listed prices.

(Expense forecasts)
Q. What are your thoughts on selling, general and administrative expenses by principal item?
A. On a non-consolidated basis, the SGA expenses to sales ratio in fiscal 2014 is expected to come in at 43.1%, which is around the same level as fiscal 2013. The ratio of promotion expenses to sales is estimated to increase approximately 0.2 of a

percentage point from 2.6% in fiscal 2013 to 2.8%. Taking into consideration our performance and the payment of period-end bonuses for fiscal 2013, the ratio of personnel expenses to sales for the fiscal year ended March 31, 2013 was 15.5%. While we have factored in an upswing attributable to the recruitment of new graduates and other factors in line with the opening of new stores, we have not included the payment of any period-end bonus. Accordingly, the ratio of personnel expenses to sales in fiscal 2014 is forecast to remain unchanged or fall slightly below the level recorded in fiscal 2013. The ratios of rent and other costs to sales are also anticipated to experience little year-on-year movement.

Q. What are your forecasts for capital investment in fiscal 2014?
A. Capital investment is projected to exceed ¥3.5 billion on a consolidated basis with depreciation coming in at around ¥1.7 billion. (In fiscal 2013, consolidated capital investment totaled ¥2.8 billion while depreciation amounted to ¥1.5 billion.)

(Plans for opening new stores)
Q. You plan to open two stores as a part of new business activities in fiscal 2014. Will these new stores entail the introduction of completely new brands?
A. Our activities in this area will include new businesses. We have yet to release any information on this matter.

Q. Please tell us about the status of GRAND FRONT OSAKA. How do you view the potential of the Osaka market?
A. Seven brands including consolidated subsidiaries opened stores in GRAND FRONT OSAKA. Sales exceeded forecasts in overall terms in April. The Osaka market has experienced rapid change since last year. We have not been in the position to determine the potential of either the north (Kita) or south (Minami) districts. The opening of new commercial facilities tends to generate new customer flows. As a result, we intend to actively open new stores in new facilities. Moving forward, we will clarify exactly how the opening of new stores in GRAND FRONT OSAKA is affecting the market and adopt any and all measures accordingly.

Q. Will the opening of numerous new stores in GRAND FRONT OSAKA have an impact on existing stores in suburban areas? Do you have a criterion for the withdrawal of stores in Japan?
A. Our policy is to avoid taking any hasty and short-sighted action in connection with the impact of new stores on existing stores. There is ample potential for stores to coexist

and prosper. Any decisions will be based on an assessment of customer trends and our withdrawal criteria.

Q. On a non-consolidated basis, there appears to be little discrepancy in the balance between new stores opened during the first and second halves. Why then is there such a substantial difference between store opening costs?
A. The opening of new large-scale stores is concentrated in the first half of fiscal 2014. This explains the relative large expenditure during this period. On a non-consolidated basis, the sales floor spaces of regular businesses are projected to increase around 1,100 tsubo* for the full 2014 fiscal year. Of this total, the first half of the fiscal year will account for 1,000 tsubo, and the second half the remaining 100 tsubo after taking into account the closing of stores. (Additional note: We plan to close four stores during fiscal 2014, all of which are earmarked for the second half. In the second half, we intend to open new stores with a total sales floor space of approximately 350 tsubo. The total sales floor space of stores to be closed is around 250 tsubo.)

* 1 tsubo = $3.3m^2$

(Online sales)
Q. Please provide us with details of trends in online sales in fiscal 2013 and fiscal 2014 by sales channel.
A. ZOZOTOWN, own e-commerce sites, Amazon, *i Lumine*, and others made up in excess of 64%, 17%, more than 5%, less than 4%, and under 3%, respectively, of total non-consolidated online sales in fiscal 2013. In fiscal 2014, we are looking at ZOZOTOWN, own e-commerce sites, and Amazon to contribute less than 62%, 18%, and under 7%, respectively, with other essentially unchanged year on year.

Q. Why is the forecast growth rate for online sales lower than that for retail sales in fiscal 2014?
A. In our own e-commerce site business and through Amazon, where the share with respect to the Company’s e-commerce sales remains small, we are forecasting double-digit percentage growth in fiscal 2014. In our ZOZOTOWN business, which commands the largest share, we are not anticipating growth of any major substance. The number of store brands and products placed through ZOZOTOWN is already on par with actual stores. We are projecting solid growth at rates that will approximate actual stores. While we are forecasting the opening of new retail stores, we are not really projecting the opening of EC stores.

Q. We would like to learn more about your O2O activities. How will your marketing strategy change now that you have established the Digital Marketing Department?
A. Our ratio of EC sales to total sales is relatively high when compared with our peers. Looking ahead, we plan to keep pace with trends in the U.S., where online sales are advanced, as well as online sales market trends in Japan. Our ideal scenario is to provide both actual and online store customers with the same level of service. We have already initiated measures that facilitate the purchase of items online at certain stores. This includes the use of item number memo cards that allow customers, who have seen a product at an actual store, to undertake a quick and easy search and to purchase the item from their personal computer or mobile device. In this manner, we are working to bring additional benefits to customers, allowing them to purchase items when and where they like. In addition, we are increasing our lineup of services. Using our strengths in coordinated proposals in our actual stores, the same presentations are available through our online stores. In addition, we are planning new services that for example allow customers to collect online-ordered products at actual stores with minor alterations.

Q. Will your distribution structure and systems change by strengthening O2O initiatives?
A. We are already sharing inventory data with START TODAY CO., LTD. and are looking to expand the scope of activities in this area. While we recognize that bolstering the distribution function will become critical in the future, we are confident in our ability to meet requirements based on our current capacity.

(The long-term UA VISION 2022)
Q. Under your long-term vision, you are targeting sales of ¥220.0 billion in 2022. Please provide us with a breakdown between existing, new, and overseas businesses.
A. In our existing UA (including BY) and GLR, CH, SBU, and outlet store business, we are projecting increases from ¥70.0 billion to ¥100.0 billion, ¥7.0 billion to ¥10.0 billion, ¥14.0 billion to just under ¥30.0 billion, and ¥14.0 billion to ¥20.0 billion, respectively. We are anticipating sales of around ¥30.0 billion from several new businesses. We are adopting a long-term view toward our overseas business development activities, recognizing the need for a substantial period to accumulate the necessary know-how. Accordingly, our estimate for overseas sales is approximately ¥3.0 billion. Turning to affiliated companies, COEN CO., LTD. and FIGO CO, LTD. are forecast to contribute ¥20.0 billion and ¥10.0 billion, respectively.

Q. The target then for new business sales is to generate around ¥30.0 billion from several brands. Where within the portfolio will you position support? Do you envisage an M&A scenario in order to develop new businesses?
A. We are not looking to launch a large number of new businesses. Our goal for each new business is to generate an additional ¥10.0 billion in sales. There will undoubtedly be areas where new businesses overlap our existing portfolio. We will of course also work to fill areas that are not currently covered. Any thoughts of M&A activities are dictated by the opportunities that arise. We will not enter into an M&A transaction solely for the purpose of creating a new business. We will, however, consider possibilities should a lucrative proposal emerge. Based on the competitive advantage of our services, products, and store environment as well as collaboration between our Product, Sales, and Promotion departments, we will make full use of our product platform to further hone our creativity and pursue new markets.

Q. Under the long-term vision, the ordinary income margin is forecast to improve. Which benchmarks have you earmarked for attention in order to achieve this improvement? Are you concerned that your efforts to develop new businesses will negatively impact profit margins?
A. On an individual business basis, ordinary income results are currently divided into both the good and the bad. There is ample room for improvement. Our long-term vision is based on the premise that improvements in existing businesses will support the development of new businesses. On this basis, we do not see the promotion of new businesses as having a detrimental effect on profit margins.

(Overseas business development)
Q. Overseas business development costs have been factored into forecasts for fiscal 2014. When, where, and in which business types are you contemplating expenditure and the development of businesses overseas?
A. We are not in a position to provide specific details at this moment. Initially, we will continue to conduct research in the adjoining areas of Asia. We plan to start business development activities from these areas close to our home base. We will open stores in existing mainstay businesses on a trial basis and take up the challenge of entering the European and U.S. markets at some time in the future. We will lay the foundations for our overseas business development strategy during the period of our long-term vision.

Q. What has brought about this change in your stance toward entering overseas markets?

A. We have always held a cautious approach toward entering overseas markets. While undertaking a wide range of trial calculations and examining target areas, we have become increasingly eager to try our hand in areas that offer the potential for generating earnings. We are keen to test our pattern of success in areas outside Japan and would like to put in place a business model that can excel overseas.

Q. Under your long-term vision, overseas sales are forecast at a conservative ¥3.0 billion. Why have you put forward such a prudent estimate given the test marketing undertaken to date?
A. The current status of our overseas operations include mainly wholesale sales to I.T Ltd. in Hong Kong and the export of products to a portion of the U.S. Over the past four years, we have continued to engage in wholesale sales with the aforementioned company. Our products are therefore sold in Hong Kong and Beijing. Wholesale sales, however, prevent us from making full use of the competitive advantages afforded by our services, products, and store environment. Looking ahead, we therefore are keen to take up the challenge of engaging in business in our own right. Taking into consideration our stance toward adjusting merchandise to reflect the attributes of each area and to fully address customer needs, we are not contemplating opening multiple or a dozen new stores in the first fiscal year of operations.

Q. As a company that does not rely totally on private label brands, what are your plans for overseas business development?
A. For a select shop business that promotes a mix of private label brand and purchased products, we recognize that this poses the greatest challenge when pursuing business overseas. Our Company handles a substantial number of unique, special made to order purchased products. This feature of our business continues to attract the support of customers and we are earning a favorable reputation among overseas tourists. We are confident in our ability to market uniquely different special made and collaboration products overseas. At the same time, we will further fine tune our private label brand products to ensure a quality that rivals purchased products.

(Subsidiary companies)
Q. What is the background behind COEN CO., LTD.'s robust performance? What are the company's strengths?
A. As an offshoot of UNITED ARROWS LTD., COEN CO., LTD. carries the same DNA. In this regard, a premium is placed on collaboration between the Product, Sales, and Promotion departments. The company's strengths lie in its ability to incorporate

feedback gleaned from customers into product planning through close-knit ties between the Product and Sales departments. At the same time, COEN CO., LTD. is extremely adept at putting itself on the right track and offers high standards of customer service. Complementing this competitive advantage, the company is highly acclaimed in the casual fashion market by a broad customer base. It attracts favorable comments from the youth segment in terms of its product pricing and from families for its excellent fashion sense and taste. COEN CO., LTD. faces only limited competition and has therefore secured competitive advantage.

(Other)

Q. Please tell us about the status of new stores opened in spring last year in such locations as Shibuya Hikarie ShinQs, DiverCity Tokyo Plaza in Odaiba, and TOKYO SKYTREE TOWN Solamachi.

A. Our SKYTREE and Odaiba stores are attracting large numbers of tourists. We expect the number of local resident customers to increase and will be looking to secure sales growth by establishing a robust customer base. Shibuya Hikarie ShinQs is exhibiting normal shopping center trends. Compared with forecasts, our SKYTREE stores are struggling slightly against estimates that were set at a high level. All other stores are exceeding projections. In addition, UA Daimaru Tokyo Women's Store, Sogo Yokohama Women's Store, and other stores opened during fiscal 2013 are performing well. In fiscal 2014, we opened the Roppongi Women's Store, which is also enjoying favorable trends.

Q. Have you witnessed any positive flow-on effects from the policy measures implemented by the new government administration in Japan?

A. Media reports have indicated that high-priced items at department stores are selling well. In this context, we have seen a positive upswing in high-priced brands at CH, DRAWER, and other stores since entering this year. Notwithstanding this favorable trend, we believe that two years will be required before the effects are fully carried through to the real economy. Any impact on business confidence will first become evident at the time of summer bonus payments, then winter bonus payments, and after the implementation of hikes in consumptions tax rates. It is difficult at present to fully visualize specific repercussions. We can say, however, that customers are increasingly looking to purchase quality items.

Q. What are your thoughts on bargain sales in the lead-up to the increase in the consumption tax rate? Do you have any comment on the pros and cons of steps by the government to regulate such bargain sales?

A. We do not intend to adopt a consumption tax bargain sale approach in our dealings with customers. Accordingly, we have no particular comment to make on guidelines issued by the government.

Q. Will you change the mix between private label brand and purchased products?

A. The mix in fiscal 2013 was essentially unchanged from the previous fiscal year with private label brands accounting for around 49%. We do not have a forecast for fiscal 2014.