UNITED ARROWS LTD. First Quarter Fiscal 2013 Earnings Announcement Q&A

UNITED ARROWS LTD. held an earnings announcement presentation attended by the mass media, analysts, and institutional investors on August 3, 2012 and August 6, 2012. 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.

Operating performance

Q. What are your thoughts having completed the first quarter since your appointment as president? What are your views on the future and any issues the Group is likely to face?
A. Our performance was steady during April and May. With progress in spring and summer items deviating from initial forecasts due to unstable weather conditions, we undertook the necessary adjustments to merchandise utilizing our product platform. As a result, we were able to cover the portion affected by delays in progress in April and May in June without the impact of delays in the start of clearance sale.

Q. Turning to stores opened during the current period, can you tell us about those that have performed well and those that have not?
A. This spring was extremely eventful with the opening of new stores in a number of high-profile commercial facilities. During the first quarter of the fiscal year under review, we opened several new stores including those at TOKYO SKY TREE TOWN Solamachi, DiverCity Tokyo Plaza in Odaiba, and Shibuya Hikarie ShinQs. We were also successful in launching THE HIGHWAY STORE NEOPASA SHIMIZU and THE STATION STORE ECHIKA FIT GINZA. In specific terms, the number of people visiting Tokyo Sky Tree for sight-seeing purposes rather than for shopping purposes was high. As a result, initial sales at our Tokyo Sky Tree Town Solamachi stores fell below initial forecasts. With each subsequent month, however, we are witnessing robust growth. Our COEN store in particular is doing extremely well. I believe this can be attributed to the affordable price range of its products, especially for those customers whose primary purpose is sight-seeing. The Group's BY and COEN stores at DiverCity Tokyo Plaza are showing outstanding results with a diverse range of regional, Tokyo Metropolitan, and overseas customers. Results at our Shibuya Hikarie ShinQs store were initially impacted by restrictions on admission. Thereafter, performance has substantially buoyed by large numbers of female customers. Our HIGHWAY STORE NEOPASA SHIMIZU was picked up by the media immediately after its opening. Thankfully, this has led to not only large numbers of

customers travelling from long distances, but also significant interest from local residents. Among our current network of three THE STATION STORE UNITED ARROWS LTD. stores, THE STATION STORE ECHIKA FIR GINZA, opened this spring, boasts the largest volume of sales. With the vast majority of customers comprising working women, the store is distinguished by its lineup of products that meet casual office needs. Women's shoes are performing extremely well and we are currently trialing a range of men's products.

Q. How much upside was there with respect to consolidated and non-consolidated profits? Are there any plans to increase selling, general, and administrative (SG&A) expenses during the second quarter?
A. Both consolidated and non-consolidated gross profit was up nearly ¥500 million in the first quarter compared with plans. SG&A expenses for the period were around ¥500 million lower than initially projected. Of the total amount of operating overhead expenses that went unused, ¥100 million was for furniture and fixtures as well as maintenance and repairs while ¥100 million was for promotions and travel. We anticipate this total of ¥200 million will shift to the second quarter. In addition to bringing forward operating overhead expenses from the second half and next fiscal year, we are considering additional sales and promotional initiatives to attract customers to stores on the basis of forecast delays in the start of fall and winter sales.

Q. Interim operating results forecasts remain unchanged. Against an interim profit projection of ¥3.3 billion, however, the Group's profit in the first quarter was ¥3.6 billion. What are the factors that will cause the drop in profits in the second quarter?
A. We do not at this point envisage any major outlay in operating overhead expenses during the second quarter. Taking into consideration delays in the start of spring and summer clearance sales, however, we would like to take a little more time to assess our performance after the start of the fall and winter seasons. After evaluating these trends, we will again review our budgets and plans. We will consider undertaking additional operating overhead expenses and revise operating results forecasts according to disclosure requirements.

Q. The gross margin for the first quarter was high. Do you see any room for further growth, or do you anticipate the current level will remain unchanged? Are you planning to lift the ratio of private label brand sales to total sales in an effort to increase the gross margin?
A. The gross margin for the first quarter of fiscal 2013 improved 1.7 percentage point compared with the corresponding period of the previous fiscal year. This was largely attributable to shifts in the periods of clearance sales. On a full fiscal year basis, we are forecasting non-consolidated and consolidated gross margins of 54.2% and 54.7%,

respectively. Moving forward, we will strive to increase the gross margin by implementing efforts to quickly reduce inventories, bolstering and upgrading our product-lineup that deliver an optimal balance between quality and price.

Q. What is your sense of gross margins excluding the impact of delays in the periods of clearance sales?

A. A delay in clearance sales periods was not incorporated in our initial forecasts. Gross margins were therefore expected to decline in June, in line with results in the previous fiscal year when clearance sales were initiated according to plans. In light of the discrepancy between initial forecasts and results, approximately 1.0 percentage point of the 1.7 percentage point improvement in the gross margin can be attributed to delays in the start of clearance sales. The remainder is the result of reductions in mark-down losses (0.3 of a percentage point), cutbacks in procurement costs (0.2 of a percentage point), and other costs (0.2 of a percentage point).

Q. What is the status of inventories as of the end of July?

A. We are yet to close our accounts at this time and cannot provide and accurate figure. Based on raw data, and without accounting for such factors as product write-downs, inventories as of the end of July are around 8% lower than the level recorded in June. Of this total, spring and summer items account for approximately 70% of the previous month's level with fall and winter items around 150%. The split between spring and summer items and fall and winter items for June and July were 70:30 and 55:45, respectively. As of July 31, 2011, the split was about 50:50. On this basis, inventories of spring and summer items in the current fiscal year are a little high. This can be attributed to delays in the start of clearance sales periods. As a result, the sales composition in August may increase year on year.

Q. Please provide us with a specific example of success based on product, sales, and promotion collaboration.

A. Temperatures during spring this year were relatively low. Society's mindset toward conserving electricity was also less focused compared with the previous fiscal year. Taking into consideration these and other factors, Cool Biz demand in the men's business began on a weaker than expected note this year. Utilizing our merchandising platform, we took steps to regularly check relevant benchmarks and overcame this issue with such measures as the additional introduction of long-sleeve shirts. Moreover, despite gaps between the composition of women's merchandise based on last year's results and customer needs, we successfully addressed this issue by quickly improving the final sales rate of slow-moving products by boosting activities at outlet stores, bringing forward the release of new products, and introducing additional merchandise that proved popular.

Q. Consumption is weak as a result of lower temperatures this spring and summer. Have you witnessed any changes in customers' purchasing behavior?
A. Sales of Cool Biz-related items were robust since start-up last year due largely to promotional efforts led by the government. Initial results in Cool Biz items were weak this year reflecting lower temperatures and declining interest in electricity conservation. We are now in the sales period and clearance sales are up on the back of strong demand. Interest in Cool Biz items among women is also high. This is an issue that we much address going forward. Customers' interest in fall and winter items is low at the moment due mainly to delays in the start of sales periods. As we enter the season in earnest, we anticipate things will appreciably pick up.

Q. What are the reasons behind the increase in the share of private label brands?
A. During the first quarter of the fiscal year under review, growth in the share of private label brands was particularly prominent in GLR. The share of private label brands rose from 60% last year to around 64%. For UA, these figures are 38% and 40%, respectively, while the share of private label brands was generally unchanged for BY. In SBU businesses, where the share of private label brands is high, results were robust. On a non-consolidated companywide basis, the share of private label brands climbed from 46% to 48% this year on a year-on-year first quarter basis. Our approach toward increasing the quality of private label brands while maintaining the share of purchased products and private label brands at existing levels remains unchanged. As our product platform has taken root, we are drawing on KPIs with respect to product shortages and adopting a flexible approach for product launch. As a result, the share of private label brands is steadily rising.

Q. The average spend per customer rose during the first quarter of the fiscal year under review. What price settings are you contemplating for the fall and winter periods?
A. One reason behind the increase in average spend per customer is the delay in the start of clearance sales periods. As a result, the ratio of product sales at original prices was high. Products that offer optimal balance between quality and price move well at original prices. Accordingly, the average spend per customer rose during the first quarter. Initially, we gave strong consideration to adjusting product prices to offset the sharp increases in costs including manufacturing costs in China due mainly to the upswing in personnel expenses as well as the surge in raw material prices. However, on the back of continued appreciation in the value of the yen, cooperative ties with factories, and our early procurement of raw materials, we were able to avert the sharp surge in costs in the spring and summer seasons.

For the fall and winter periods, we will continue to pursue early negotiations with respect to the procurement of raw materials and products, and are promoting ongoing measures aimed at reducing the risk of further increases in costs. Adhering strictly to our China Plus One strategy, our policy remains to cultivate production bases in Vietnam and throughout the ASEAN region and to reduce procurement costs. For the current fall and winter seasons, we have no plans to increase or decrease prices.

Q. The start of spring and summer clearance sales was dispersed this year with periods generally delayed. What are your thoughts on this issue?
A. Looking at June and July as a whole, the impact of the dispersal of clearance sales periods was not all that great. In hindsight, I see this as an acceptable result. From a total market perspective, I believe that the dispersal of clearance sales periods created some level of confusion among customers. There are signs that the start of the next fall and winter clearance sales periods will be delayed. After completing our summer sales activities, we will put in place a policy for fall and winter based on feedback from Sales Department. As the period during which products are sold at regular prices becomes longer, we will carefully consider what kind of products we should propose to customers. Naturally, the ideal scenario is to devise a system where clearance sales are conducted at the appropriate time. I believe that delays in the start of clearance sales periods will provide a positive environment for customers as well.

New business development

Q. You plan to launch “monkey time BEAUTY&YOUTH UNITED ARROWS” during the fiscal year under review as a part of the Group’s new business development endeavors. What led you to this focus on the men’s business? What market are you trying to capture with this business? And, what plans do you have for launching other new businesses during the current period?
A. We had no set plans to prioritize the men’s business. We are constantly engaged in test marketing. These ongoing endeavors and efforts to ascertain areas where customer needs are high led us to monkey time label. The business therefore began with the desire to promote the label. The business brought to fruition previous discussions that focused on breaking away from existing endeavors and starting something completely new. This business will move away from our previous mix between private label brands and purchased products. In this case, the business will begin with a high share of private label products. With respect to other new businesses, I am not currently in the position to go into details. We will, however, adopt a comprehensive approach, which includes apparel, focusing mainly on lifestyle businesses.

Q. What is the current scale of monkey time sales?
A. monkey time product sales account for around 5 to 6% of BY men's sales. We plan to provide a product lineup at monkey time stores that will meet the expectations of existing monkey time customers.

Q. What are the differences between the start of the monkey time business and the way new businesses were launched in the past? What different impacts are there on earnings?
A. monkey time is a brand that first came onto the market in 1994. Accordingly, this label has the support of a long-standing customer base. While new businesses in the past contained a mix of private label brands and purchased products, the new monkey time business will offer an extremely high share of private label brands. Based on our product platform, this business provides us with the challenge of promoting a business with a high share of private label brands.

Department and women's stores

Q. You will open a Tokyo Daimaru store this fall. How will you change the way you build and develop stores in the department store business?
A. In February 2011, UA Women's opened a store in Daimaru Kobe. Drawing on this experience, the store design and product-lineup differed considerably from department store customers' needs. After a 12-month review, we have now firmed up details of appropriate modifications. When we opened our store in Kobe Daimaru, we focused mainly on clothing. For the Tokyo Daimaru store, we will add accessories and also promote the Style for Living label, handling one mile wear.

Q. What initiatives are you planning for the atelier in the future? What direction will the department store business take?
A. We plan to market the premier gold label through our UNITED ARROWS DAIMARU TOKYO WOMEN'S STORE. We believe that through the effective use of the atelier, we will further enhance the finished quality of products thereby meeting the needs of department store customers. Currently 10 items are produced through the atelier. Moving forward, our goal is to establish a department store model by enhancing the finished quality of private label brands.

Q. Do you plan to open UA Women's stores at an accelerated pace?
A. We are looking to open four UA women's stores during the fiscal year under review.

Thereafter, we will review the business model and undertake the necessary adjustments.

Trends in online sales

Q. What were the reasons behind the drop in online sales in the first quarter compared with plans? What are your future thoughts on this business, which is earmarked for high rates of growth?
A. ZOZOTOWN and own online store sales account for approximately 85% of total non-consolidated online sales. The timing of clearance sales for both channels was delayed this period commencing on July 12. While this had a significant negative impact on June sales, results in July were sufficient to offset the decline. We were successful in our efforts to share inventory distribution data with ZOZOTOWN and own online stores. Drawing on this example, we are considering steps to extend this to other malls. In addition, we continue to look at strengthening own online store and opening new stores at leading malls.

Q. ZOZOTOWN conducts new-style order event. Are there any benefits for the Company?
A. The order event is to be held over two days. This differs from the traditional online sales model, and allows customers to try on samples and then place orders. On conclusion of the event, orders are also received online for a certain period. The two days period that allows customers to try out items and to then make a comparison with other companies' products before placing an order differs from the past. ZOZOTOWN customers tend to be highly fashion conscious and on this basis our expectations are high.

Q. Are you receiving advanced orders after customers have tried on items at stores?
A. Orders are being received at certain stores.

Q. What are the benefits in sharing inventory data with ZOZOTOWN? Will inventory control become difficult if you decide to expand this initiative?
A. We can minimize the opportunity loss with respect to items that are marked as out of stock through the sharing of inventory information. Going forward we will undertake the necessary investment to put in place an environment that allows us to properly engage in quantitative control. This will help address the need to handle increasingly complex inventory management.