UNITED ARROWS LTD. Second 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 November 5, 2012 and November 6, 2012. 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.

Overview of the First Half of Fiscal 2013

Q. What impact did prolonged clearance sales have on gross margins for the second quarter of fiscal 2013?
A. On a non-consolidated basis, the gross margin for the second quarter, the three-month period from July 2012 to September 2012, of fiscal 2013, the fiscal year ending March 2013, was 49.9% compared with 50.1% in the previous year. In specific terms, the total business unit gross margin was 54.9% in the current year compared with 56.3% in the previous year. While plans were at the previous year's level, results were impacted by mark-down losses owing mainly to prolonged clearance sales. For outlet stores, the gross margin was 31.6% for the current year compared with 24.8% in the previous year. This can be attributed to a variety of positive effects including our ability to swiftly transfer slow-selling products to outlet stores, the conversion into cash at high rates of current season products, and the strong performance of outlet-exclusive items.

Q. Was the improvement in first half profits compared with forecasts at the beginning of the period the result of a substantial increase in the ratio of selling, general, and administrative (SGA) expenses that went unused? Do you anticipate any change in full fiscal year profits owing to the shift of this unused portion to the second half?
A. Factors contributing to an increase in SGA expenses in the second half include both expenditure carried over from the first half as well as new expenses to be incurred. Expenses carried over are expected to total around ¥400 million and include such items as promotions, maintenance and repairs as well as furniture and fixtures. With respect to additional SGA expenses, we are factoring in such items as period-end bonuses on the back of anticipated improvements in operating results. While these estimates of expenses to be incurred in the second half are not expected to appreciably alter full fiscal year SGA expenses forecast at the beginning of the period, we plan to adopt a flexible approach toward the management of SGA expenses taking into consideration the level of sales.

Q. The increase in private label product sales as a ratio to total sales has been identified as a positive factor behind improvements in the gross margin on a non-consolidated basis. Please provide specific details regarding this increase. In the previous presentation, you mentioned an increase in the ratio of green label relaxing (GLR) private label product sales.
A. The ratio of private label product sales to total sales exceeded 47% in the first half of fiscal 2013. This is an increase of slightly less than two percentage points compared with the 45%-plus recorded in the corresponding period of the previous fiscal year. The improvement was particularly noticeable in GLR sales where the ratio exceeded 62% for the period under review. This was an upswing of more than three percentage points compared with the level recorded in the first half of fiscal 2012, which was just short of 59%.

Q. What are your thoughts on outlet store gross profit for the second half of fiscal 2013?
A. Our forecasts for outlet store sales and gross profit remain unchanged from plans identified at the beginning of the period. In the event that companywide gross profit including outlet stores falls below plans due to such factors as the impact of the lingering summer heat during August and September on fall item sales, we will work to achieve profit targets through wide-ranging initiatives including the control of SGA expenses. To date, there has been no need to control SGA expenses to secure profits owing to firm sales since the middle of October.

Q. The ratio of advertising expenses to sales increased in the first half compared with the previous year. Is there a short-term impact on profit?
A. In the previous fiscal year, we undertook extensive cross-media promotions. As a result, advertising expenses were concentrated in the second half. In the fiscal year under review, we have adopted a more balanced approach toward first and second half expenditure. On this basis, the ratio of advertising expenses to sales in the first half of fiscal 2013 has increased year on year. Currently, we estimate that the ratios for the second half and full fiscal year will fall below the levels recorded for the corresponding previous periods. However, in the event that trends in future sales are robust and our operating results substantially exceed forecasts, we may undertake additional advertising and promotions at the end of the period in an effort to boost sales in fiscal 2014.

Q. During the first half of the fiscal year under review, the Company experienced months where its performance was firm and other months where it struggled. What factors led to those months where the Company experienced difficulties? Looking ahead, what initiatives do you plan to undertake from a merchandising (product planning) perspective?
A. In 2011, clearance sales from the middle of June. This was earlier than in past years due to

the impact of the earthquake disaster. In 2012, clearance sales were launched at certain commercial facilities and through major online stores from the middle of July. As a result, existing retail and online store sales contracted 5.0% in June compared with the corresponding period of the previous year and increased 11.0% in July year on year. In September, results fell 2.3% year on year owing mainly to the effects of prolonged clearance sales and the lingering summer heat. We were able to minimize the decline, however, by utilizing the product platform and supplying additional products including knitwear and pants that matched the prevailing weather conditions, which contributed to an increase in fall item sales. This would have been impossible using traditional product procurement methods. At the other end of the scale, we must reflect on the overemphasis placed on performance during the previous year. This is particularly true for product planning in the UNITED ARROWS (UA) and green label relaxing (GLR) businesses. With women's merchandise following previous year's trends, products were unable to attract customers at the time of their launch and lacked freshness. Taking these factors into consideration, we are currently rebuilding our merchandise lineup as we look toward the spring season in 2013. While following patterns and trends from the previous year is important, we will place equal emphasis on improving performance by putting forward new proposals for the benefit of customers.

Q. CHROME HEARTS (CH) and Small Business Unit (SBU) sales are increasing on the back of product initiatives. Do you plan to extend successful initiatives to the UA and GLR businesses?
A. In our CH business activities, we are providing CH in the United States with feedback on specific requirements. In this regard, we are steadily putting in place a virtuous cycle that is capable of bringing products to the market and generating hit items in Japan. Together with products that can only be purchased in Japan, we are attracting visitors to stores from around the world. Comments from CH enthusiasts are channeled to the United States and incorporated in the product planning process. Combining these efforts with promotions, we are witnessing steady growth. In our SBU activities, we have achieved considerable success in utilizing our product platform and promoting collaboration between Product, Sales, and Promotion departments. Our emphasis on focusing purely on the basics in our Another Edition business is a prime example. Recognizing the potential for weaknesses to emerge as the organizational structure of a business expands, we take steps to return to the very basics of each business and conduct thoroughgoing reviews of large-scale ventures.

Q. What are your impressions after launching "monkey time BEAUTY&YOUTH UNITED ARROWS" in September? There are few examples of BEAUTY&YOUTH opening new stores on the mid-levels of commercial facilities. Are there any differences compared with traditional stores?

A. “monkey time” is yet to establish a presence in the market. Accordingly, there are many issues to be addressed. Stores located on the mid-levels of commercial facilities tend to offer brands that target the youth market. As a result, there are slight differences in customer base compared with lower-level stores. Moving forward, we will reevaluate operations in an effort to put the business on the right track.

Q. What can you tell us about the plans of Group companies?

A. COEN CO., LTD., which promotes COEN brand stores, is experiencing steady operating trends with a 3.7% increase in existing store sales in the first half of fiscal 2013 compared with the corresponding period of the previous fiscal year. Taking into consideration plans to open additional stores in the second half, we see considerable upside compared with initial forecasts. While FIGO CO., LTD. sales continue to progress according to plans, profit is exceeding forecasts. This improvement in earnings is largely attributable to a decline in the SGA expenses to sales ratio and the increase in gross margins.

Inventories

Q. On a year-on-year basis, inventories as of the end of the first half of fiscal 2013 climbed 8.2%. While this is below the rate of sales growth, the increase in inventories exceeds the previous year. Please provide us with details on the status of summer item inventories as well as your thoughts on how to handle fall and winter inventories together with inventories leading into the second half.

A. The rate at which inventories have increased during the first half is less than the rate of sales growth. From an efficiency perspective, we are therefore witnessing a steady improvement. On the other hand, the balance of inventories as of the end of the second quarter was higher than in-house estimates. With this in mind, we are far from satisfied with current results. Looking ahead, we will increase the pace at which slow-selling merchandise are transferred to outlet stores and work to improve sales rates.

Online Store Sales

Q. Please provide details of the online store sales ratios of other company sites and UNITED ARROWS LTD. ONLINE STORE (UA ONLINE STORE). What factors contributed to UA ONLINE STORE growth?

A. In the first half of fiscal 2013, ZOZOTOWN accounted for approximately 65% of online store sales. This was followed by UA ONLINE STORE, which contributed 16-17%, Amazon, i

Lumine at around 4%, SELECT SQUARE, Marui web channel, and other routes. Compared with a year-on-year increase of 15% in overall online store sales in the first half, UA ONLINE STORE sales climbed approximately 46%. The ability to share and use HOUSE CARD points through both retail stores as well as UA ONLINE STORE is helping to drive this result. UA ONLINE STORE is also posting information on the status of inventories at retail stores providing a catalogue function to customers. Looking at the purchasing data of customers who use a combination of retail stores and UA ONLINE STORE compared with customers who only undertake purchases at retail stores, the amount of each purchase at retail stores is higher for the former than the latter. This can largely be attributed to the more frequent opportunities for customer to come into contact with the Company's products at retail stores and UA ONLINE STORE.

Q. Please provide us with details of ZOZOCOLLE* results and any issues that have arisen.
A. Despite failing to achieve planned targets for both the number of visitors and sales, we believe that participating the ZOZOCOLLE event has generated positive promotional effects and demand. Looking at the status of orders, GLR, which undertook ample preparatory steps, has secured a solid performance compared with other businesses.

* ZOZOCOLLE: An exhibition and pre-order event for consumers that was held by START TODAY CO., LTD., the operator of online fashion store ZOZOTOWN, at the Makuhari Messe international convention complex on September 15 and 16, 2012.

Q. After announcing details of an upward revision to forecasts on September 28, 2012, we heard news of additional ZOZOTOWN sales promotion initiatives. What impact, if any, do you anticipate on the current assumption of a 7.7% year-on-year increase in existing online store sales in the second half of fiscal 2013? Please provide us with your thoughts including any tentative ideas on the effects of ZOZOTOWN sales and promotional initiatives on UA ONLINE STORE, other online store, and retail store sales.
A. Revised sales forecasts for the second half take into account the impact of opening new stores in addition to those planned at the beginning of the period and changes in the timing of new store openings as well as store renovations. No other changes have been made. On this basis, ZOZOTOWN initiatives are not reflected in forecast second half sales. While trends in ZOZOTOWN sales remain robust since the announcement by START TODAY CO., LTD., there are no indications of any current concentration in ZOZOTOWN sales with little or no sign of any impact on retail and own online store sales. It is difficult at this stage to gauge the level of initiative penetration and would like to wait and see a little longer. This is about all we can say at the moment.

Q. Under current forecasts, year-on-year online store sales for the second half of fiscal 2013 are expected to fall below the level recorded in the first half. How do you see ZOZOTOWN initiatives effecting operating results?
A. ZOZOTOWN initiatives from November 2012 have not been factored into second half forecasts. The potential, however, exists for sales to surpass forecasts.

Progress on Addressing Priority Issues

Q. Please provide details of the impact on first half operating results of efforts to address priority issues. In addition, what effect do you envisage on second half performance? What initiatives will you implement over the medium term?
A. Collaboration between the Product, Sales, and Promotion departments has produced considerable benefits in the first half. While our SBU activities continued to struggle through to the previous period, we are seeing the benefits of collaboration in our mainstay businesses carry through to our Another Edition and other SBU endeavors during the current first half. Despite the effects of such external factors as the staggering of clearance sales periods and lingering oppressive summer heat during the fiscal year under review, the fact that sales have not significantly diverged from plans is evidence of the success of efforts to bolster collaboration. Collaboration between the Product, Sales, and Promotion departments is also the cornerstone of the Company’s competitive advantage over the medium term. Moving forward, we recognize that strengthening the precision of this collaboration and lifting overall skills are the wellspring for future performance growth.

Q. While specific benefits are yet to materialize, are there any initiatives that can be expected to produce substantial results from the second half and beyond? Can you elaborate on any frontline measures such as the sowing of new seeds in earnest through use of the atelier?
A. We are promoting application of the atelier as a part of efforts to improve the accuracy of private label brands. Sales commenced for around 15 fall and winter items in the UA women’s line of products. We intend to expand our efforts in this area and increase the number of items from next spring and summer.

Business Confidence

Q. There are signs of a downward revision in certain areas including the supermarket sector due to the slump in reconstruction demand. What are your impressions of business confidence moving forward?

A. There were concerns that consumer confidence would change at the start of fall. Looking at sales of winter items including coats, however, there is little or no indication of any change in the Company's customer base. While it would be remiss to place any blame on external factors, we believe that weather conditions had a greater impact than the economic environment this fall.

Q. We have heard many competitor companies comment that conditions became difficult from August due to concerns regarding an increase in consumption taxes. What is your response?
A. It is not as if consumption taxes will increase from the following month. We believe that it is therefore unlikely that any immediate impact will emerge. Nevertheless, human nature being what it is, the continuous daily stream of news regarding the sluggish global economy may trigger a more prudent approach toward purchasing patterns. We remain confident, however, that customers will continue to respond favorably to the value that we provide.

Other

Q. The latest UA business campaign is an excellent campaign. Please tell us about the intention behind the campaign, reactions, and results.
A. In April this year, the reigns of the Company were passed on to the next generation of management. Together with input from executive officers, steps were also taken to review our Company Policy. At the end of the day, the underlying fundamental principle remains unchanged. We have positioned the rule — "It's All About The Customer" — as our Mission Statement. Historically, campaigns have been directed by our head office. Our promotional activities have mainly centered on magazine, television commercial, and newspaper insert advertising. In this instance, our stores are playing the pivotal role. Asking customers for 10 minutes of their time, sales personnel are attending passionately to customer needs while putting forward styling proposals that open up new worlds. In this manner, we are pushing forward a campaign that expresses the true essence of our Mission Statement. While this initiative is not expected to generate immediate sales, we are confident that it will help nurture long-standing ties with customers. We are yet to analyze such key sales benchmarks as coordinated fashion purchasing rates and the number of customers. The campaign is, however, being extremely well received.

Q. Product procurement risks have risen due mainly to issues regarding the manufacture of products in China. To what degree has operations been effected?
A. There is very little impact on the procurement of products at this stage. This may, however,

change depending on repercussions following the National Congress of the Communist Party of China that began on November 8, 2012. Taking into consideration risks inherent in China, we will continue to manufacture products in China, Japan, and various countries throughout the ASEAN region.

*As of the middle of November, there had been no impact of particular note on the Company's operations.

Q. What is the quantitative background and intention behind the cancellation of treasury stock?
A. While consideration was given to the use of treasury stock in capital and business alliance and M&A transactions or for employee incentive purposes, we were at odds to envisage a business alliance with a scale of around ¥20 billion. In the absence of any specific proposal, we decided to initially cancel around half of all treasury stock rather than between 20 and 30%. While no express purpose for the remaining treasury stock after cancellation has been identified, we will continue to consider options. Currently, we are engaging in operations that systemize the Company's strengths in the retail sector. We are therefore looking for a partner that is capable of further harnessing these strengths. Our options include an alliance with another company that is well versed in the manufacture of products. While we would like to expand our horizons over the long term, we believe that our medium-term prospects remain in the fashion industry. We have not placed any time limit on the consideration and implementation of M&As.