UNITED ARROWS LTD. Earnings Announcement Q&A for the Nine-Month Period Ended December 31, 2022

UNITED ARROWS LTD. (the "Company") held an earnings announcement presentation at which the press, analysts, and institutional investors were in attendance. The principal questions received and answers given are presented below. Certain details have been added or amended to lead to a further understanding of the UNITED ARROWS Group's performance and activities.

●Nine-month results and revision of business results forecast

Q: How is the gross margin of the third quarter alone progressing against the plan?

A: Looking only at the third quarter, the margin is slightly below the plan. This was mainly due to a large fluctuation in exchange rates from the forecast made at the beginning of the period and weak sales of winter outerwear, caused by high temperatures in November.

Q: What reasons do you have to suggest that the gross margin in the revised plan for the fourth quarter will exceed the previous year's gross margin?

A: The gross margin for COEN CO., LTD. has significantly improved, which contributes to improvement on a consolidated basis.

Q: What is the reason for operating loss in the fourth quarter to increase in the revised plan?

A. This is due to the conservative setting of the gross margin of UNITED ARROWS LTD. by taking currency fluctuations into account, and the addition of costs, such as an increase in the funds for bonuses, the payment of bonuses to employees for achieving the plan, and store repairs, which were not included in the initial plan.

Q: While costs continue to rise, is there room for gross margin to increase?

A: We have a "fixed price consumption ratio" as a KPI in our internal guidelines. This indicator shows the ratio of total purchases that are sold at regular prices. If this indicator improves, the ratios of discount sales and unsold stock decrease, improving gross margin. However, we have not yet reached our target in this area and we recognize there is room for improvement. Furthermore, we will continue revising prices after the spring/summer of 2023 in an attempt to reduce the impact of rising costs.

Q: Could you please share with us how you feel the market has reacted to the price revisions made for the fall/winter of 2022 and if there are any issues.

A: Overall, we conclude that there was no significant negative impact, but there were slight variations from business to business. We are certain that our pricing has been accepted in the Trend-conscious Market, centered on UA and BY, and that we were able to offer products at the appropriate price for the quality. In the Basic Trend-conscious Market centered on GLR, we have found that some of the price revisions were poorly accepted due to a high ratio of basic products. We intend to implement fine-tuned pricing that meets the characteristics of each market following the coming spring and summer.

Q: What are the trends of major sites?

A.

	Net sales year-on-year	Composition ratio	Change year-on-year
UNITED ARROWS LTD. ONLINE	100.7%	35.2%	0.1pt
ZOZOTOWN	95.9%	40.6%	-1.8pt
Rakuten Fashion	111.6%	16.2%	1.6pt

Q: With distribution costs rising, what measures do you have in place to counter delivery charges for online sales?

A: We revised delivery charges for E-commerce sales last October, and we have already taken measures. We are yet to receive any negative feedback from our customers, and intend to maintain prices where they are. There are also concerns about rising costs for deliveries from distribution centers to stores, and we will promote measures such as consolidating operations and reducing warehouse personnel through system investment.

Q: Is the improvement in profitability for COEN CO., LTD. progressing?

A: Up until now, COEN has been relying on discount sales to maintain its sales volume, but like UNITED ARROWS, it has switched to appropriate pricing and increasing regular price sales in an effort to improve inventory efficiency and enhance brand value. We have achieved a certain level of success in this area, and are working to improve our gross margin and profitability. Moving forward, we will continue to increase regular price sales and focus on resolving store operational issues. In addition to identifying unprofitable stores, we will standardize store space, thereby improving efficiency in MD and curbing SGA expenses.

Q: Please let us know your thinking on personnel expenses for the next fiscal year.

A: Although personnel expenses are expected to rise partly due to the resumption of recruitment, we plan to keep the ratio of personnel expenses at the same level as the current fiscal year. In recent years, we have not invested enough in employee education, and our current focus is on employee education and development. In an employee awareness survey, employees have expressed their desire for more opportunities for experiencing growth and training. We will be focusing on education in order to foster employee satisfaction. We will maintain our personnel expense ratio while implementing a balanced approach through measures that include revising our personnel evaluation system and increasing promotions.

Q: Will there be any changes in the future in human resources at physical stores?

A: We recognize that the shopping experience at our physical stores is most important. Since the re-opening of stores following the lifting COVID restrictions, the importance of the customer service experience in a physical store is rising, and increasing the number of our sales staff is a top priority. We will also make better use of talent management to raise sales staff motivation and further enhance their skills. We will improve efficiency in back-office operations by reviewing and scrutinizing business processes that are performed by individual personnel.

Q: You say that you are entering an offensive phase in the next medium-term plan. Will there be any difference from the way things have been done in the past?

A: In the past, we have taken the approach of starting small and building over time. However, there have been problems over how long this process takes. We are starting to implement some new initiatives and have several ideas in the pipeline. In the next medium-term plan, we will take the approach of increasing sales over the short term while making strategic investments.

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