Management with an awareness of capital costs and stock prices

UNITED ARROWS LTD.

February 7, 2024

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As for management that takes into account capital costs and stock prices, which the TSE requires us to disclose, we will explain our current recognition and policy.

Current status evaluation

- ROE for the fiscal year ended March 31, 2023 was 13.6%. It exceeds the cost of equity calculated by the Company, but falls short of past levels
- PBR was also 1.6 times, not enough to restore market valuation
- The main reason is that we have not been able to establish a source of income to replace CHROME HEARTS JP, GK which was excluded from consolidation in December 2020
- Aim for operating income of ¥9 to ¥10 billion (vs. sales: 5.6 to 5.9%), and ROE of 13.8 to 15.4% in the final year of the medium-term management plan (fiscal year ending March 31, 2026), and for operating income of ¥25 billion (vs. sales: 10.0%) in the long term (fiscal year ending March 31, 2033)

		Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Sales	million yen	158,918	157,412	121,712	118,384	130,135
Operating income	million yen	11,063	8,758	(6,613)	1,683	6,362
vs. sales	%	7.0%	5.6%	-	1.4%	4.9%
Net income	million yen	6,417	3,522	(7,197)	732	4,341
Shareholders' equity	million yen	37,810	38,634	29,868	30,210	33,897
ROE	%	18.0%	9.2%	-	2.4%	13.6%
Number of issued shares	shares	28,372,794	28,375,350	28,477,882	28,497,881	28,495,284
Stock price at the end of the period	yen	3,855	1,625	2,106	1,821	1,919
PBR	times	2.9	1.2	2.0	1.7	1.6

Fiscal year ending March 31, 2026

Operating income	¥9 - ¥10 billion
vs. sales	5.6 - 5.9%
ROE	13.8 - 15.4%

Fiscal year ending March 31, 2033

Operating income	¥25 billion
vs. sales	10.0%

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First, we will explain our current understanding of capital costs and stock prices.

The ROE for the previous period was 13.6%. Although the cost of shareholders' equity calculated by the Company exceeded it, it has not recovered to past levels.

The PBR for the previous period was 1.6 times, which is also below the previous level, so we recognize that the market valuation has not recovered.

We believe it is the main reason that we have not been able to establish a source of income to replace CHROME HEARTS JP, which was excluded from consolidation in December 2020.

The long-term vision and medium-term management plan that we have already announced aim to achieve operating income of ¥9 to ¥10 billion (vs. sales: 5.6 to 5.9%) and ROE of 13.8 to 15.4% for the fiscal year ending March 31, 2026, and operating income of ¥25 billion (vs. sales: 10.0%) for the fiscal year ending March 31, 2033. And we would like to raise the levels of ROE and PBR by advancing this plan steadily.

Evaluating the current situation and identifying issues

- Comparing each indicator to the fiscal year ended March 31, 2019, we set net income margin and PER (Price Earnings Ratio) as key issues
- Focus on expanding sales, improving profitability, and creating expectations over the medium to long term

$$\overbrace{\underbrace{\frac{\text{Market capitalization}}{\text{Net assets}}}_{\text{Price Book-value Ratio}}}^{\text{PBR}} = \overbrace{\underbrace{\frac{\text{Net income}}{\text{Sales}}}_{\text{Net income margin}} \times \underbrace{\frac{\text{Sales}}{\text{Total assets}}}_{\text{Total asset turnover}} \times \underbrace{\frac{\text{Total assets}}{\text{Equity}}}_{\text{Financial leverage}}}^{\text{ROE}} \times \overbrace{\underbrace{\frac{\text{Market capitalization}}{\text{Net income}}}_{\text{Price Earnings Ratio}}}^{\text{PER}}$$

		Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Net income margin	%	4.0%	2.2%	-	0.6%	3.3%
Total asset turnover	times	2.2	2.2	1.9	2.0	2.1
Financial leverage	times	1.9	1.8	2.1	2.0	1.8
PER (Price Earnings Ratio)	times	17.0	13.1	-	70.8	12.6

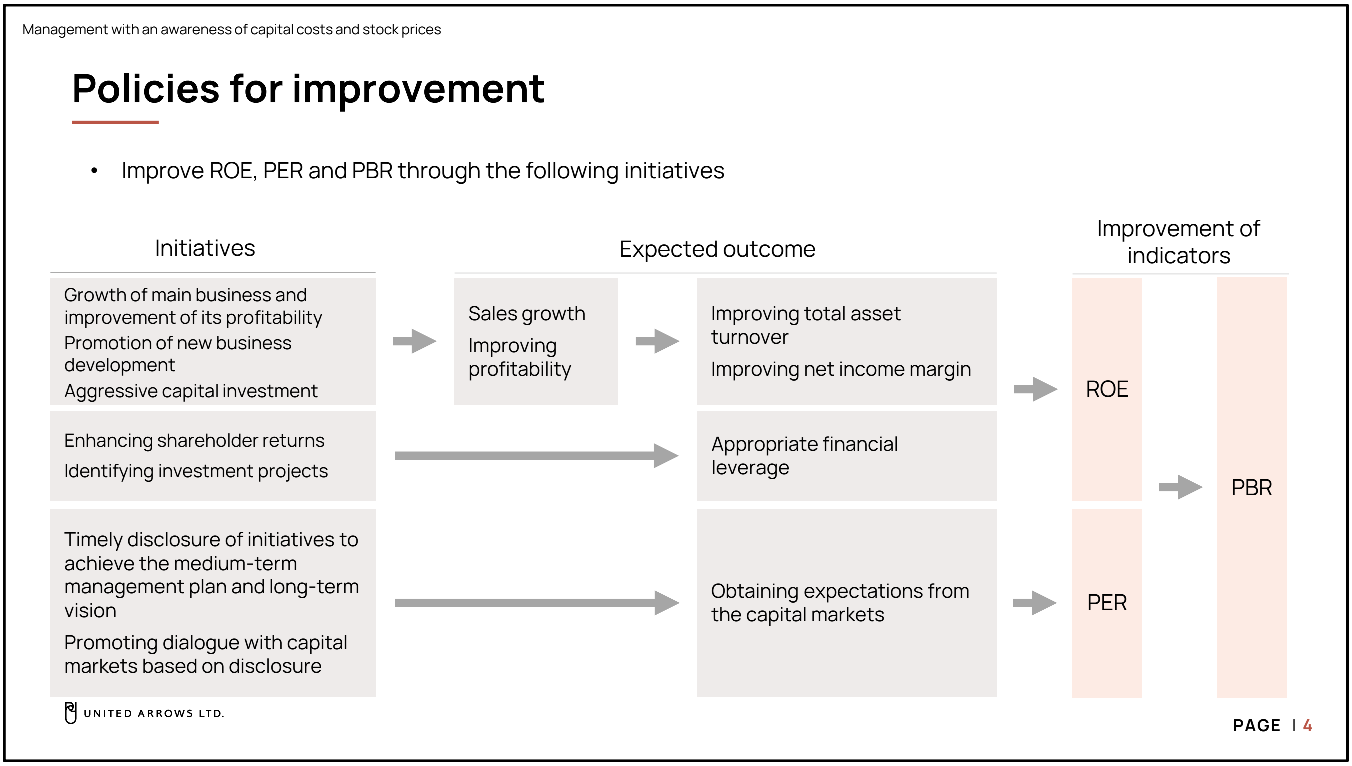
Breaking down the PBR as shown in the slide, the net income margin, which is one of the components of ROE, and the PER have not reached the levels of the fiscal year ended March 31, 2019.

It is clear that these two are our main challenges.

The PER is lower than the retail average in the Prime market and the level of competitors, and we believe that investors with a long-term perspective are becoming less interested in the Company.

Against a backdrop of these factors, we have reaffirmed that our priority task is to increase the net income margin by improving profitability, which we are working on in our current medium-term management plan.

At the same time, we believe that fostering medium- to long-term expectations from the market by aiming for improving PER is a measure to be taken.



We will work specifically as shown in the slides to improve the indicators that are issues.

First, we will work to grow our main businesses and improve their profitability, while also moving forward with the development of new businesses. In order to support these initiatives, we will promote growth and efficiency by investing in physical stores, OMO-related investments, infrastructure investments, etc. As a result, we will strive to grow sales and improve profitability.

Furthermore, in order to improve shareholder value, we will enhance shareholder returns such as stable dividends linked to business performance and the acquisition and cancellation of treasury stock.

Financial leverage has remained stable in the past, but going forward, the Company plans to identify investment projects that could become a pillar of earnings and apply appropriate financial leverage as needed.

As a result of conducting corporate activities under these policies, the total asset turnover rate and net income margin will increase, which will lead to an improvement in ROE.

At the same time, we will disclose in a timely manner the progress of our efforts to achieve our medium-term management plan and long-term vision and promote dialogue with the capital market based on this disclosure.

By promoting constructive dialogue in this way, we will deepen people's understanding of our business activities and we will utilize the opinions of shareholders and investors in our management. By creating expectations in the capital market, we aim to increase the PER. As a result, we intend to increase PBR through improving ROE and PER.

Policies and Measures for Improvement: Key Strategies of the Medium-Term Management Plan

- Policies and measures to improve indicators are incorporated into the current medium-term management plan

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Three Key Strategies

UA CREATIVITY Strategy

- Grow and expand existing businesses
  Top-line growth
  Improvement of gross margin
- Strengthen brand appeal
  Expansion of investment in human capital
  Rebranding of the corporate brand
- Re-grow COEN

UA MULTI Strategy

- Brand development for business expansion
- Global expansion

UA DIGITAL Strategy

- Promote OMO
- Optimize the supply chain

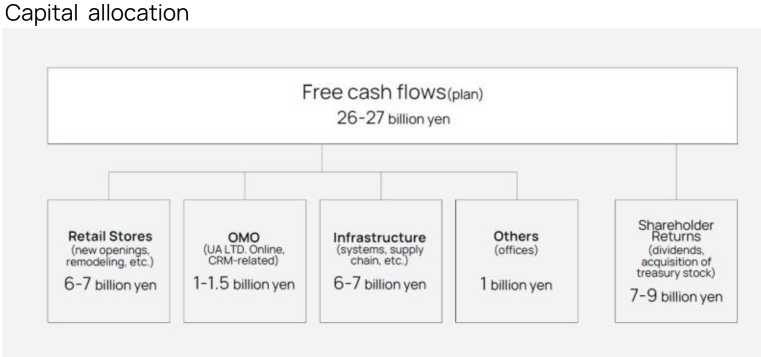
Policies and measures explained in the previous slide are those incorporated into the current medium-term management plan. In other words, we believe that implementing the medium-term management plan is synonymous with promoting management that is conscious of capital costs and stock prices.

Therefore, as a result of implementing strategies to achieve the goals of the medium-term management plan, we also aim to improve the indicators that have been a challenge.

Policies and Measures for Improvement: Capital Allocation

- Appropriately manage capital allocation to balance growth from a medium- to long-term perspective and shareholder returns
- Strategically distribute cash earned from business activities to growth investments and shareholder returns
- Aim to improve business growth and the profitability of capital

Capital allocation



This slide shows the capital allocation planned in the current medium-term management plan.

As seen in the slide, based on the idea of valuing the balance between growth and shareholder returns from a medium- to long-term perspective, the Company will appropriately manage capital allocation. We aim to improve both business growth and the profitability of capital by strategically distributing cash earned from business activities to investment in growth and shareholder returns.

Policies and Measures for Improvement: Quantitative Targets of the Medium-Term Management Plan

- Achieve the planned sales and profit growth and improve profitability by promoting the medium-term management plan

Medium-Term Management Plan 2023-2025

UA Group Financial Targets (consolidated)

Sales	160-170 billion yen
Operating income	9-10 billion yen
Operating income margin	5.6-5.9 %
ROE	13.8-15.4 %

The medium-term management plan has aimed for the highest sales and profit levels since CHROME HEARTS JP, GK was excluded from consolidation.

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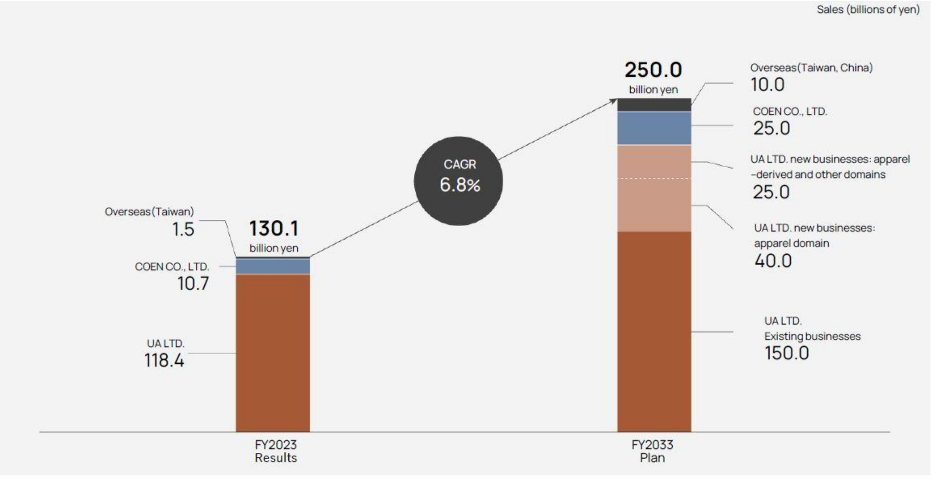
Policies and Measures for Improvement: Long-term Vision

- Aim for consolidated sales of ¥250 billion and operating income of ¥25 billion (vs. sales: 10.0%) in the fiscal year ending March 31,2033



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Under the long-term vision, the Company aims to achieve sales of ¥250 billion and operating income of ¥25 billion (vs. sales: 10.0%) in the fiscal year ending March 31, 2033. In order to raise growth expectations in the capital market, we will steadily advance our medium-term management plan to improve ROE and achieve our long-term vision while realizing our planned sales and profit growth and improve profitability.

Considering the current stock price trends and consensus, we believe that the market does not have confidence in our medium-term recovery. We will strive to bridge the gap with the capital market and gain support over the medium to long term through recovery of our business results, engaging in dialogue with shareholders and investors, and disclosing information.

Reference: Criteria for Investment in Store Opening and Renovation Based on Capital Costs

- Calculate NPV (net present value) and IRR (internal rate of return) based on expected cash flows
- Invest in projects where the present value of future cash flows exceeds the store opening investment amount and exceeds the hurdle rate set by the Company
- Aim to improve the profitability of capital through growth investments by appropriately utilizing cash obtained from operating activities
- Aim for growth by creating an environment that makes it easier than ever to take on new business challenges

The Company has investment decision criteria based on investment targets such as physical stores, OMO, and infrastructure.

As an example, we will introduce the criteria for investment in store openings and renovations.

When opening new stores or undergoing major renovations, we use criteria that takes into account capital costs to determine whether or not to open new stores. Specifically, we create multiple plans for the expected cash flows over the payback period for the store we want to open, and then calculate the NPV (net present value) and IRR (internal rate of return) based on those cash flows.

We have decided to invest in projects where the present value of future cash flow exceeds the investment amount for store openings and exceeds the hurdle rate set by the Company.

As mentioned earlier in the capital allocation section, investing in physical stores to allow customers to experience brand value is one of the most important investments for the Company. By appropriately utilizing cash obtained from operating activities, we aim to improve the profitability of capital through growth investments.

We will continue to maintain and improve the profitability of capital by making highly reliable investments based on this standard. At the same time, we aim to grow by creating an environment that makes it easier than ever to take on new business challenges.