UNITED ARROWS LTD. Earnings Announcement Q&A
for the Nine-Month Period Ended December 31, 2023

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 during each session 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.

Q. Could you share with us the status of progress in the initial plan (the one announced at the beginning of the fiscal year).

A. Until the first half of the fiscal year, sales and gross margin were almost at the level of the plan, but profits exceeded the plan due to restraints on SGA expenses. In 3Q, there were large shortfalls in the plan for sales and gross profit, and although SGA expenses were controlled, profits failed to reach the initial plan, leading to the failure to reach the plan for the 9-month period.

Q. What is the background to sharp rises in advertising expenses and personnel expenses in terms of SGA expenses in 3Q?

A. The cost increase in 3Q was mainly caused by UA LTD. The increase in personnel expenses was primarily due to a rise in the number of personnel and a salary increase associated with employee promotion. The higher advertising expenses resulted from company-wide measures for Christmas, Black Friday and others, and online shopping advertising. Although an increase in personnel expenses will continue to 4Q, the growth is not expected to be as high as in 3Q since special bonuses were included in 4Q of the previous fiscal year. As for advertising expenses, no major measures are incorporated in 4Q at this moment.

Q. Gross margin for the second half of the fiscal year is planned to increase year on year by 0.5 percentage points. What is the probability of achieving this?

A. Inventory has decreased satisfactorily by the end of December, which has held down the possibility that the discount price sales trend in January will give a major negative influence on gross margin. Notwithstanding the fact that the hurdle for achieving that is high, we expect to spring items in February and March catch up.

Q. Was the negative impact from UA Club included in the earnings forecast?

A. In the earnings forecast, the said impact is included as a factor that decreases operating income by about ¥600 million. Up to December, there has been a total negative impact of ¥1,000 million or so, which is broken down to approx. ¥600 million in gross profit and approx. ¥400 million in SGA expenses. This tendency has caused a difference of approx. ¥400 million, compared with our assumption.

Q. Do we understand that the shortfall in profits by UA Club will completely move to profit-increasing factors for the next fiscal year?

A. This approx. ¥1,000 million was incurred temporarily, associated with the transition of the membership system. For the next fiscal year, we assume that ¥700 to 1,000 million or so out of that amount will become a profit-increasing factor.

Q. Will any negative impact from the transition to UA Club continue to show up down the road?

A. The portion of additionally granted points generated by the transition of systems has been mostly used by 3Q. This problem is expected to be solved by the end of this fiscal year although some points will be used during 4Q.

Q. Could you share with us upcoming market-specific measures.

A. In the Trend-conscious Market centered on UNITED ARROWS and BEAUTY&YOUTH, gross margin has improved due to a rise in the ratio of regular-price sales. As we are certain that we could have grown our sales further with more inventory, we are thinking of placing additional orders in the future, as appropriate. The Basic Trend-conscious Market centered on green label and the New Basic Trend-conscious Market of COEN are ones sensitive to price ranges. In recognition of the necessity for operation combined with appropriate price reduction measures, we will adjust after the spring and summer, thereby aiming at sales growth.

Q. What will be the price ranges of spring and summer merchandise?

A. There will be variations depending on brands. However, as a whole, our policy is to maintain the levels of the previous fiscal year.

Q. What is the background to the development and the characteristics of UNITED ARROWS BEAUTY?

A. Although we have developed and expanded original cosmetics in the past, only our stores sold them, and we were unable to appeal to broad channels. This time around, we put our brand name on them and expand sales through the likes of Rakuten Ichiba and Amazon by leveraging brand recognition. The products jointly developed with strong partners, and we intend to appeal to broader users by setting them in relatively affordable price ranges.

Q. Could you share with us the plan for opening stores in the next fiscal year and after.

A. With a plan for opening stores for both new and existing brands, store openings are expected to outnumber the current fiscal year.

Q. What is the status of progress in the medium-term management plan? What feedback are you receiving?

A. Efforts for the three years of the medium-term management plan have progressed as planned in general. The UA CREATIVITY Strategy has delivered results in human capital and the re-strengthening of existing brands. In the UA MULTI Strategy, store opening in mainland China after the next fiscal year has also come into sight. In the UA DIGITAL Strategy, the establishment of supply chain management is progressing. Quantitative effects will start showing up from the next fiscal year to the fiscal year after next.