



ARTNATURE INC.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2022

October 29, 2021

Event Summary

| | | |
|-----------------------------|---|--|
| [Company Name] | ARTNATURE INC. | |
| [Company ID] | 7823-QCODE | |
| [Event Language] | JPN | |
| [Event Type] | Earnings Announcement | |
| [Event Name] | Q2 Financial Results Briefing for the Fiscal Year Ending March 2022 | |
| [Fiscal Period] | FY2021 Q2 | |
| [Date] | October 29, 2021 | |
| [Number of Pages] | 30 | |
| [Time] | 16:00 – 16:38 (Total: 38 minutes, Presentation: 21 minutes, Q&A: 17 minutes) | |
| [Venue] | Webcast | |
| [Venue Size] | | |
| [Participants] | | |
| [Number of Speakers] | 2 | |
| | Isao Naito | Managing Director |
| | Toshio Honda | Senior Corporate Officer, General Manager of Management Planning Division |

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Presentation

Nakagawa: Hello everyone. At this time, we will broadcast the financial results briefing of ARTNATURE INC. Thank you very much for watching and participating.

I would now like to introduce today's attendees. Mr. Isao Naito, Managing Director.

Naito: This is Naito from ARTNATURE. Thank you all for participating.

Nakagawa: Mr. Toshio Honda, Senior Corporate Officer, General Manager of Management Planning Division.

Honda: This is Honda from ARTNATURE. Thank you for your cooperation today.

Nakagawa: My name is Nakagawa, and I'm the moderator. Thank you for your cooperation in advance.

As for today's proceedings, first, Managing Director Naito will give an overview of the financial results, followed by General Manager Honda who will explain the details of the financial results.

After that, we will move on to the Q&A session.

We will now move on to the explanation of financial results. First, Managing Director Naito, please go ahead.

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1H FY2022 : Highlights



Net Sales & Operating Income

(¥ million)

| | 1H FY2020 (Results) | 1H FY2021 (Results) | 1H FY2022 (Results) | YoY Change | Year-end (Plan) | Progress rate |
|------------------|------------------------|------------------------|------------------------|------------|--------------------|---------------|
| Net Sales | 20,126 | 14,793 | 19,329 | +30.7% | 40,363 | 47.9% |
| Operating Income | 2,907 | (592) | 1,561 | - | 2,023 | 77.2% |

Breakdown of Net Sales

| | 1H FY2020 (Results) | 1H FY2021 (Results) | 1H FY2022 (Results) | YoY Change | Year-end (Plan) | Progress rate |
|------------------|------------------------|------------------------|------------------------|------------|--------------------|---------------|
| Men's Business | 11,576 | 8,743 | 11,078 | +26.7% | 22,366 | 49.5% |
| Ladies' Business | 7,938 | 5,288 | 7,485 | +41.5% | 16,052 | 46.6% |
| Others | 611 | 761 | 766 | +0.6% | 1,945 | 39.4% |

※Ladies' Business including JULLIA OLGIER, NAO-ART CO.,LTD

Naito: Hello again, I'm Naito from ARTNATURE.

Thank you very much for watching our online financial results briefing today. Now, let me move on to the explanation.

First of all, I will give an overview of the first half results and outline of the second half plan.

First, I would like to provide an overview of the first half results. In the first half of the fiscal year, as shown in the table above, both sales and profits increased YoY, and operating income returned to the black.

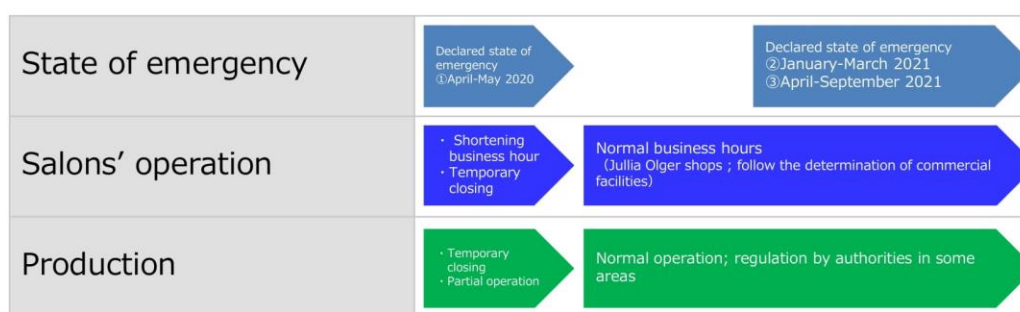
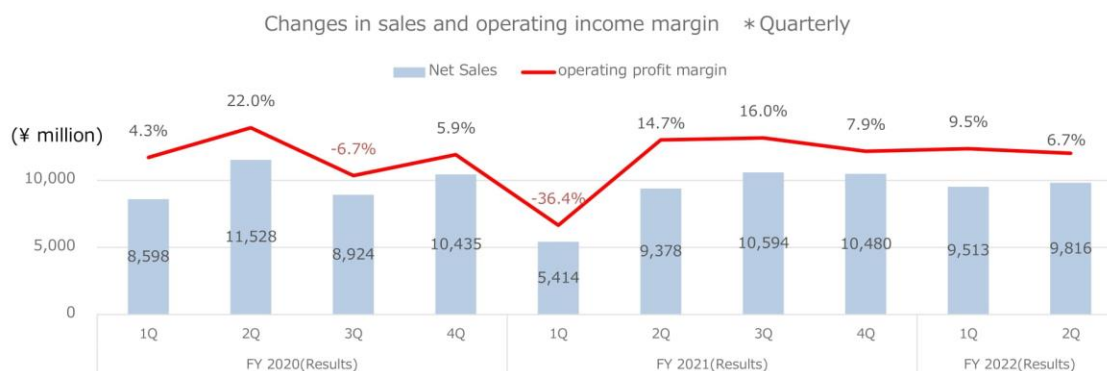
Operating income has been progressing at a high rate against the full-year plan. The table at the bottom shows the results of sales by division, and we were able to bring both men's and women's sales close to the level before COVID-19. Honda will explain the details later.

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I will now explain the quarterly status.

The upper graph shows the quarterly trend of net sales and operating income ratio.

In the first quarter of the current fiscal year, the decline in sales caused by COVID-19 in the previous fiscal year was resolved, and the delivery of orders received in the previous fiscal year progressed. Which lead to a significantly increased net sales from the same period of the previous year. Operating income was positive, mainly due to the increase in net sales.

On the other hand, in the second quarter, net sales were almost the same level as the same period of the previous year, but the profit margin declined slightly. This was due to the fact that while we managed expenses more restrainedly in the previous fiscal year, we used more money this fiscal year than in the previous year, mainly for advertising.

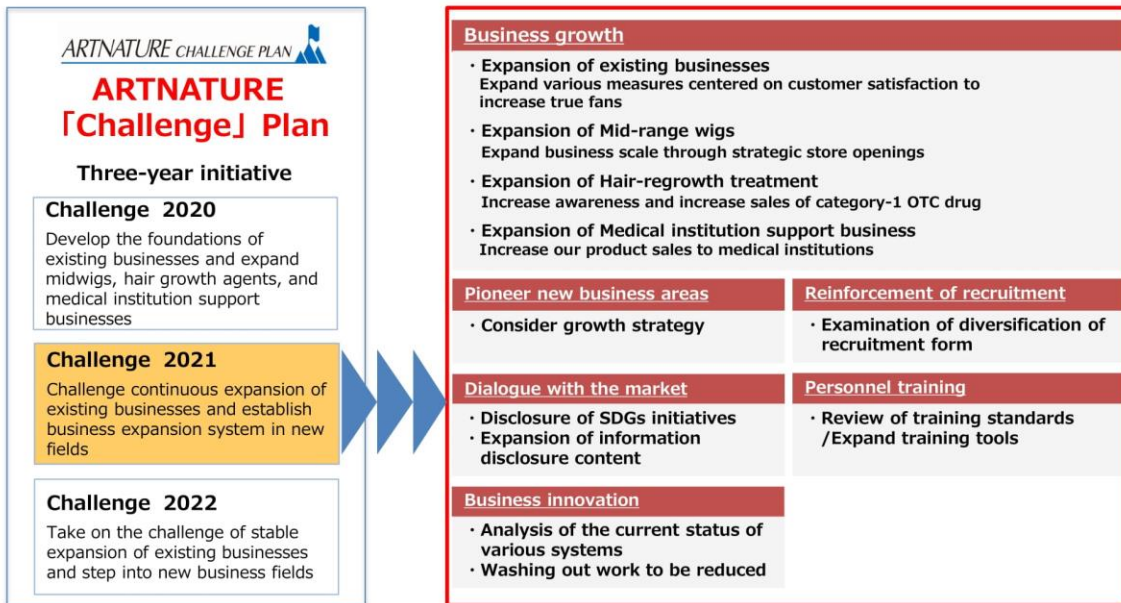
Summarizing the first half of the fiscal year, despite the fact that almost the entire period was under the declaration of a state of emergency, both sales and profit margins remained strong.

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| ARTNATURE 「Challenge」 Plan Key Challenge Measures to Achieve |



Next, I would like to explain the major measures for the fiscal year ending March 31, 2022.

In Challenge 2021, the second year of our medium-term management plan, the ARTNATURE Challenge Plan, our goal is to re-expand our existing businesses and establish a framework for further expansion into new business areas.

The main measures for this fiscal year are shown on the right side of the slide. We will steadily implement these various measures.

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Men's Department

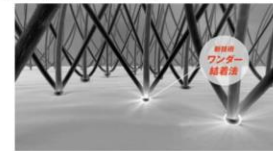
Mostly achieved the targets for orders and sales. The department continues to make efforts to increase the number of loyal ARTNATURE fans.

| Summary of the first half of the fiscal year ending March 31, 2022 | |
|--|--|
| New | <ul style="list-style-type: none"> While media exposure was increased compared to the previous term, the renewed efforts failed to produce a strong response*. Nevertheless, new commercials for wigs aired along with the commercials for hair addition led to the acquisition of a certain number of wig customers. A premium hair addition trial service was introduced in addition to the standard hair addition trial service. A favorable response received from customers who genuinely want to try hair addition led to a higher contract rate. An AI-powered call answering system was introduced on a trial basis to streamline contact center operation. |
| Repeat | <ul style="list-style-type: none"> Throughout the first half, the majority of major cities were placed under a state of emergency. Despite this, the number of customers who visited stores remained at the same level as the previous term. We quickly responded to demand for online training brought on by the coronavirus restrictions and established a new training structure. |
| Others | <ul style="list-style-type: none"> Reduced production at plants in the previous term caused delivery delay, which was carried forward and inevitably increased sales in the first quarter. |

*The number of new inquiries from customers.



(Characteristics of new merchandise launched in September)
MRP WONDER: The new WONDER Hair Attach Technology (patent pending) successfully reduced the time to attach each hair. It is now possible to attach 1,000 strands of hair per hour. It is also possible to attach hair on short gray hair, allowing those who are concerned about the top and parting areas to add hair quickly.



Advert for men's wigs



YouTube advert for MRP WONDER

Next, let's take a look back at the first half of the men's category.

In summary, as described in the upper part of this page, orders received and sales were generally in line with the plan. Although we struggled to get a response from new customers, our repeat customers are people who use our products on a daily basis, so we were able to achieve a solid performance even in the midst of this pandemic.

In addition, we launched a new hair thickening product, MRP Wonder, in September, which can dramatically improve the time it takes to provide hair growth to customers due to its newly developed knotting technique. This reduces the burden on the customer and also leads to more efficient work for the employees.

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Ladies' Department

While the ladies' department was more heavily affected by the coronavirus restrictions than the men's department, new merchandise received great response.

| Summary of the first half of the fiscal year ending March 31, 2022 | |
|--|--|
| New | <ul style="list-style-type: none"> Media exposure was increased, much like the men's department. As a result, we received a great response from new customers, particularly to new wigs, such as Freedia 3 and Feelin launched in March and September 2021, respectively. We actively held events at salons instead of external facilities. An AI-powered call answering system was introduced on a trial basis to streamline contact center operation. |
| Repeat | <ul style="list-style-type: none"> The ladies' department was more heavily affected by the state of emergency - no unnecessary outings and event organization - than the men's department. Opened a new type of salon within SOGO Omiya Store. The salon sells a wide range of merchandise and offers various services across different brands. |
| Others | <ul style="list-style-type: none"> Reduced production at plants in the previous term caused delivery delay, which was carried forward and inevitably increased sales in the first quarter. |



(Characteristics of new merchandise launched in September)
 Feelin is the first Ladies ARTNATURE's wig that does not require a pin to keep it in place. The new Push de Fit Technology (patent pending) enables quick securing of a wig. You simply place it on your head and move it sideways. It keeps the wig securely in place because it intertwines with your own hair. You don't need to worry about it being blown off in the wind.



Salon at SOGO Omiya Store



Next is the ladies' section.

As you can see in the upper part of the page, the refrain from going out and the cancellation of events due to COVID-19 had an impact on the reduction of opportunities to use our products. On the other hand, the number of responses from new customers was very strong. We were able to receive more orders than planned.

In particular, the custom-made wig, Feelin, which was launched in September, has been attracting a lot of attention because it is the first wig in ARTNATURE's history that does not require pins. In September, we received a record number of monthly responses. We have also been able to make a significant contribution to the expansion of orders.

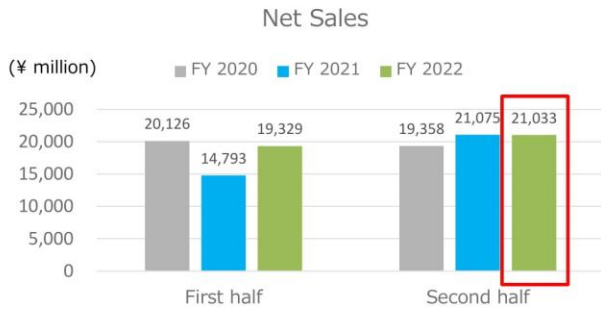
In addition, from this fiscal year, we have introduced an AI automated response system to our contact center for receiving inquiries from customers on a trial basis. This will allow us to cover inquiries when there is a sudden increase in the number of incoming calls or when the operator is not available, which will help us to get a better response.

This October, we will start full-scale operation of this system, which will allow us to accept orders 24 hours a day, and we hope that this will lead to further expansion of orders.

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Initiatives for Second Half



Prerequisites for planning

[External environment]

- We assume no more social restrictions, such as a state of emergency, will be imposed in this country.

[Production]

- Continue normal operation after October.
(Continue to follow the instructions given by the Philippine authorities.)

[Sales operation]

- Continue to operate during normal business hours after October.

Second half of the fiscal year

[Existing business/new businesses]

- Focus our efforts on sales of new merchandise, while also taking steps to expand existing businesses further.
- Focus our efforts on improving other businesses including standard wigs, hair growth agents and support for medical institutions.

[Budget]

- Intend to spend as planned.

[Investment]

- Selective and concentrated allocation of management resources.

Next, I will explain our initiatives for the second half of the fiscal year.

Please look at the graphs of net sales and operating income in the upper row. The first half of the current fiscal year shows the actual results, and the second half, circled in red, shows the difference between the full-year plan and the first-half results.

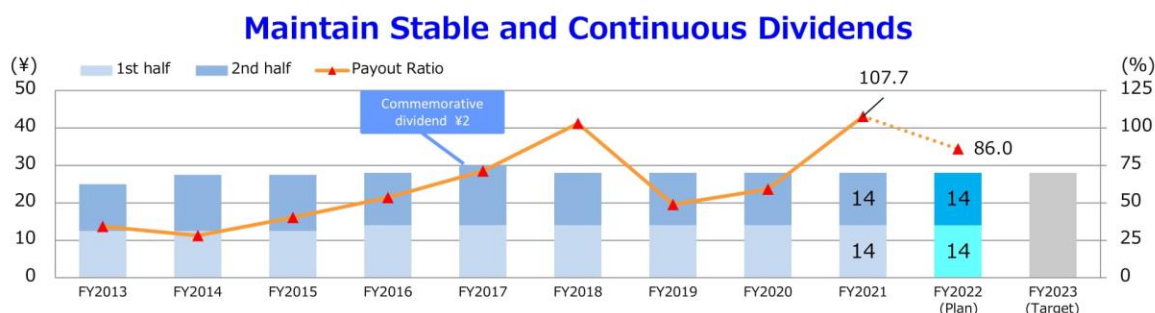
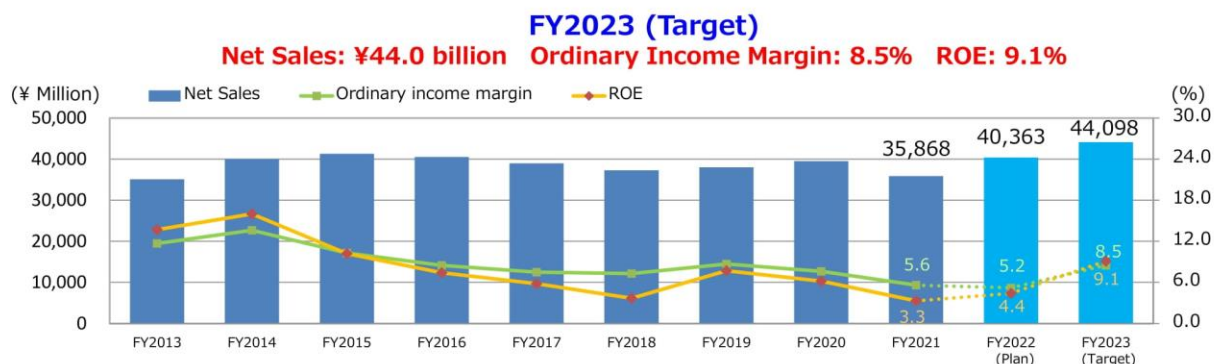
As for the operating income on the right side, the progress in the first half of the fiscal year recorded better results than the full-year plan that the second half of the fiscal year looks very weak. This is because we have left our full-year forecast unchanged, albeit somewhat conservatively, at this point in time, as consumer trends after the declaration of the state of emergency are still uncertain.

In addition, the assumptions for the second half of the plan are shown in the lower left of the slide. In the lower right corner, we described our initiatives for the second half of the fiscal year. In the second half of the fiscal year, we will continue to focus on the new products launched in September and steadily implement various measures to expand our business, with the goal of returning our full-year performance to the level before COVID-19.

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Artnature implemented a 2-for-1 stock split in November 2014.
 Retroactive revision of related financial indicators due to this stock split is reflected.

Next, I would like to explain the main management indicators and dividend policy in the mid-term management plan.

The targets for net sales, ordinary income ratio, and ROE for the medium-term management plan, the fiscal year ending March 2023, which is the final year of the plan, are shown in the upper graph on the far right.

As for dividends, based on our basic policy of maintaining stable dividends as in the past, we would like to maintain an interim dividend of JPY14 and a year-end dividend of JPY14, for a total dividend of JPY28 for the current fiscal year. The entire company will continue to work together to achieve our goal of achieving double-digit profit margins and ROE as soon as possible.

Lastly, in July of this year, we received the primary judgment result that our company meets the prime market criteria under the new market classification. We will proceed with internal resolutions, etc. for the selection of the new market segment in accordance with the schedule set by the Tokyo Stock Exchange.

This concludes my explanation.

Mr. Honda of the management planning division will then provide details of the financial results.

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1H FY2022 : Financial Highlights



(¥ million)

| | 1H FY2020 (Results) | 1H FY2021 (Results) | 1H FY2022 (Results) | 1H FY2022 (Plan) | Major Factors behind YoY Change |
|------------------|------------------------|------------------------|------------------------|---------------------|---|
| Net Sales | 20,126 | 14,793 | 19,329 | 40,363 | Net Sales : +30.7% Men's Business : +26.7% Ladies' Business : +41.5% |
| Men's Business | 11,576 | 8,743 | 11,078 | 22,366 | |
| Ladies' Business | 7,938 | 5,288 | 7,485 | 16,052 | |
| Others | 611 | 761 | 766 | 1,945 | |
| Cost of Sales | 6,008 | 5,709 | 6,310 | 13,076 | Cost of Sales Ratio (6.0)Pt (Product Cost : +0.1Pt) (HR : (6.0)Pt) |
| Gross Profit | 14,117 | 9,083 | 13,019 | 27,286 | |
| SG&A Expenses | 11,210 | 9,675 | 11,457 | 25,262 | SG&A Expenses : +18.4% Ad Spending : +41.3% HR : +6.5% Others : +15.6% |
| Ad Spending | 2,996 | 2,041 | 2,884 | 6,740 | |
| HR | 2,647 | 2,748 | 2,926 | 6,066 | |
| Operating Income | 2,907 | (592) | 1,561 | 2,023 | |
| Ordinary Income | 2,941 | (431) | 1,492 | 2,088 | |
| Net Income | 1,925 | (446) | 857 | 1,045 | CAPEX Store facilities : ¥ 353million System related : ¥ 83million |
| Depreciation | 432 | 444 | 402 | 878 | |
| CAPEX | 533 | 402 | 608 | 1,977 | |

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Honda: Hello again, I'm Honda from ARTNATURE.

Now, let me move on to the explanation.

First, I would like to outline the consolidated financial statements for the first half of the fiscal year ending March 31, 2022. Net sales increased 30.7% YoY to JPY19.3 billion. Operating income returned to the black from a loss in the same period of the previous fiscal year, reaching JPY1.5 billion, almost back to the level before COVID as planned.

Operating income has made significant progress compared to the annual plan, but some expenses have been carried over to the second half of the fiscal year. As for the cost of sales, the cost of sales ratio decreased due to with sales expansion to JPY6.3 billion. Capital investment increased by JPY200 million from the previous fiscal year to JPY600 million.

Please note that the figures for the second quarter of the fiscal year ending March 2020 are higher than the sales and profit levels of previous years due to the pre-consumption tax hike, so please bear this in mind when making comparisons.

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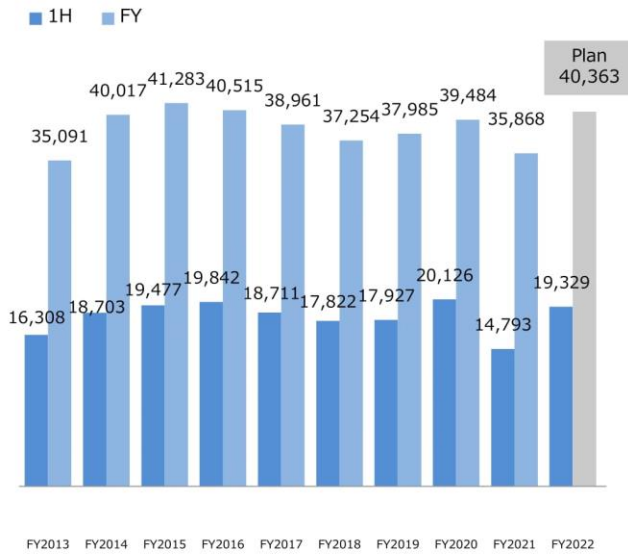
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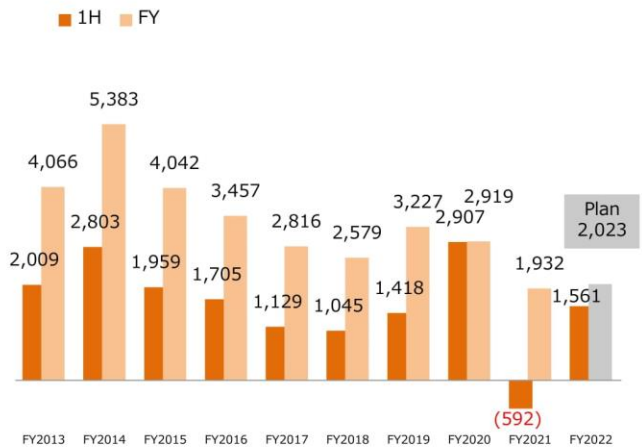
Net Sales and Operating Income Trends



Net Sales (¥ million)



Operating Income (¥ million)



Page 11 shows the consolidated financial results for the first half and full year.

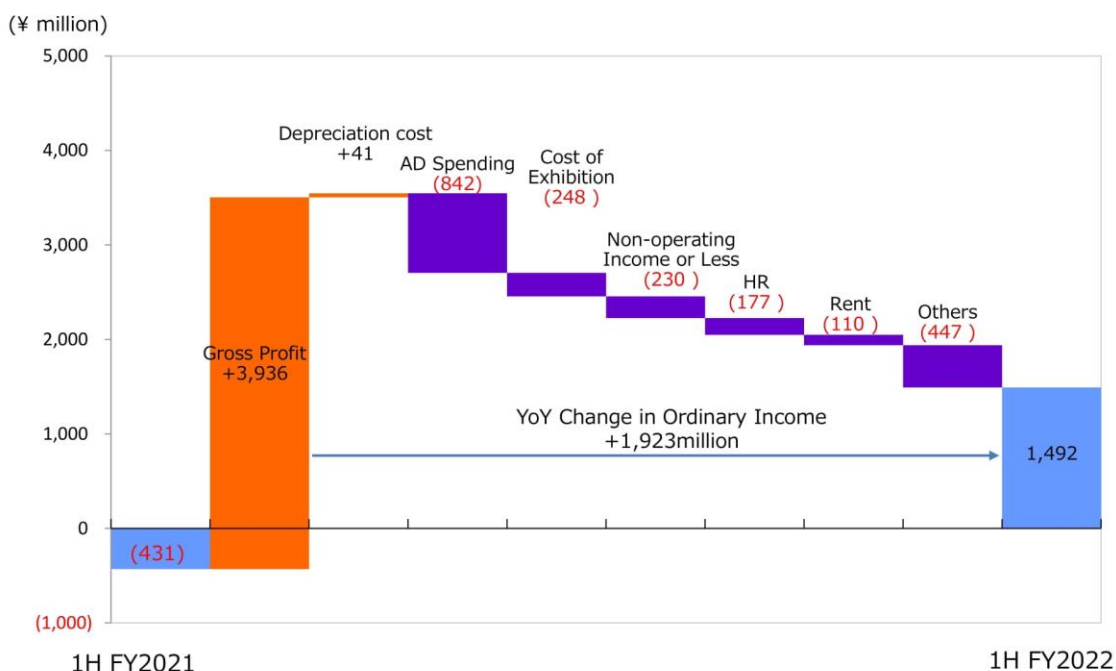
As you can see, net sales were higher than in previous years, and operating income returned to the black from a loss in the previous fiscal year.

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Page 12 shows the factors behind the YoY increase/decrease in consolidated ordinary income for the second quarter.

Moving on to the orange area on the left. This was a positive factor for profit, and gross profit increased by JPY3.9 billion over the same period last year, mainly due to the increase in sales.

The area in purple is the negative factor for profit, and overall expense items, mainly advertising expenses, increased by JPY2 billion from the same period last year. As a result, ordinary income increased by JPY1.9 billion from the same period last year to JPY1.4 billion.

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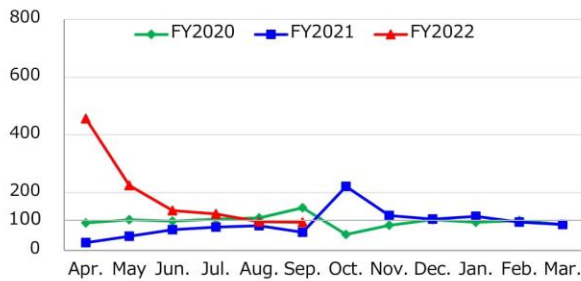
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Monthly Trend: Sales of Major Products (YoY base)



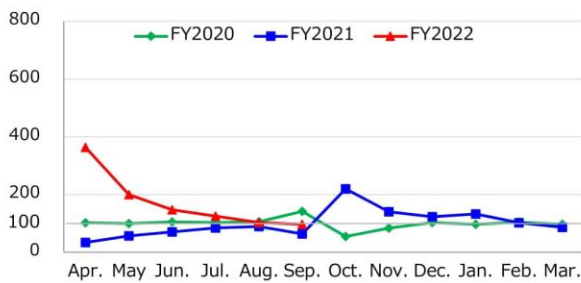
(%) **Total Sales of Major Products**



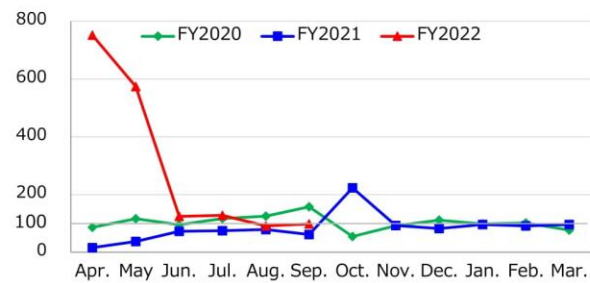
Total Sales of Major Products (Half-year)

| | Total | Men | Ladies |
|-----------|-------|-------|--------|
| 1H FY2020 | 113.3 | 111.6 | 116.1 |
| 1H FY2021 | 64.8 | 68.3 | 59.4 |
| 1H FY2022 | 140.7 | 137.9 | 145.6 |

(%) **Sales of Major Products (Men)**



(%) **Sales of Major Products (Ladies)**



Page 13 shows the monthly sales trend of major products.

This graph shows the YoY comparison of sales of major products for the last three years from the monthly sales data disclosed every month. The red line shows the current year, the blue line shows the previous year, and the green line shows the year before the previous, so you can check the approximate trend here.

In April and May of this fiscal year, in addition to the rebound from last fiscal year's decline, deliveries of orders received in the previous fiscal year progressed, resulting in a large increase in sales. As you can see, from June onward, sales have been at almost 100% of the level of the same month of the previous year, due in part to the spread of COVID-19.

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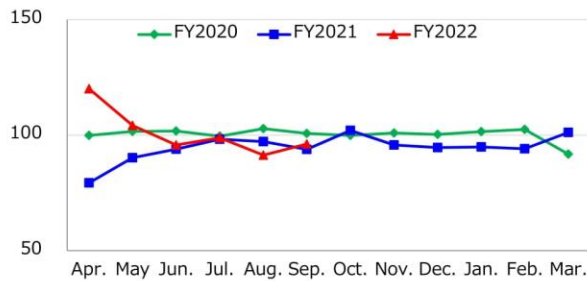
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Monthly Trend: Customer Traffic (YoY base, accumulated)



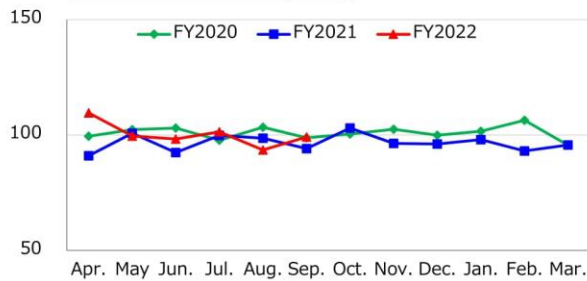
(%) **Customer Traffic (Total)**



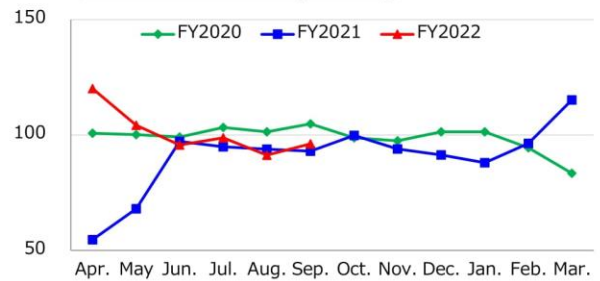
The number of customer traffic (Half-year)

| | Total | Men | Ladies |
|-----------|-------|-------|--------|
| 1H FY2020 | 100.7 | 100.4 | 101.5 |
| 1H FY2021 | 92.2 | 96.1 | 83.6 |
| 1H FY2022 | 100.4 | 100.0 | 101.1 |

(%) **Customer Traffic (Men)**



(%) **Customer Traffic (Ladies)**



Page 14 shows the monthly total number of customers visiting the store.

As in the previous page, this graph is also a summary of the total number of customers visiting our stores, which we disclose monthly. Although we were under a declared state of emergency for almost the entire period this year, we were able to maintain 100% for both men and ladies for the same period last year.

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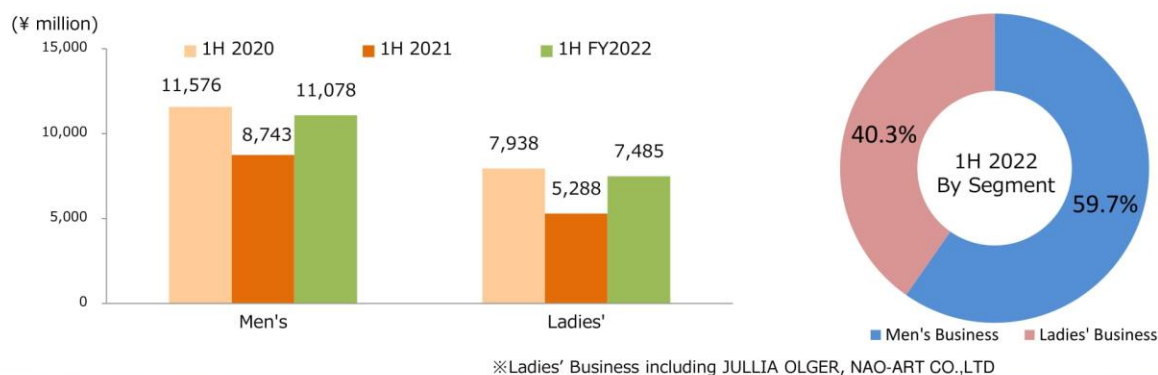


1H FY2022 : Breakdown of Sales by Segment



(¥ million)

| | 1H FY2020 (Results) | 1H FY2021 (Results) | 1H FY2022 (Results) | YoY Change | Year-end | |
|------------------|------------------------|------------------------|------------------------|------------|----------|---------------|
| | | | | | (Plan) | Progress rate |
| Net Sales | 20,126 | 14,793 | 19,329 | +30.7% | 40,363 | 47.9% |
| Men's Business | 11,576 | 8,743 | 11,078 | +26.7% | 22,366 | 49.5% |
| Ladies' Business | 7,938 | 5,288 | 7,485 | +41.5% | 16,052 | 46.6% |
| Others | 611 | 761 | 766 | +0.6% | 1,945 | 39.4% |



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Page 15 shows the consolidated sales trend by gender.

The breakdown is as follows. The details will be explained on the next page.

The ratio of men's to women's in sales, shown in the lower right-hand corner, is almost unchanged from previous years, with men's accounting for about 60% and women's about 40%.

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1H FY2022 : Breakdown of Sales by Product & Services (Non-consolidated Basis)



(¥ million)

| Net Sales | | 1H FY2020 | 1H FY2021 | 1H FY2022 | YoY Change | |
|-------------------------|---|-----------|-----------|-----------|------------|---------|
| Custom-made Wigs | New Customers | 1,668 | 857 | 1,661 | +803 | +93.8% |
| | Repeat Business | 9,464 | 5,964 | 8,375 | +2,410 | +40.4% |
| | Total | 11,132 | 6,822 | 10,036 | +3,214 | +47.1% |
| Hair Addition Products | New Customers | 980 | 752 | 578 | (173) | (23.1%) |
| | Repeat Business | 1,752 | 1,232 | 1,752 | +520 | +42.2% |
| | Total | 2,733 | 1,984 | 2,331 | +346 | +17.5% |
| Hair Growth Services | New Customers | 61 | 50 | 41 | (9) | (18.1%) |
| | Repeat Business | 543 | 517 | 579 | +62 | +12.1% |
| | Total | 604 | 567 | 621 | +53 | +9.4% |
| Styling Services | | 2,786 | 2,672 | 3,065 | +393 | +14.7% |
| JULLIA OLGER | | 1,550 | 1,008 | 1,310 | +301 | +29.9% |
| Others | | 1,172 | 1,322 | 1,281 | (40) | (3.1%) |
| All Products & Services | New Customers | 2,710 | 1,660 | 2,281 | +621 | +37.4% |
| | Repeat Business | 15,254 | 11,046 | 14,480 | +3,433 | +31.1% |
| | JULLIA OLGER (Ladies' ready-made wigs) | 1,550 | 1,008 | 1,310 | +301 | +29.9% |
| | Others | 464 | 663 | 575 | (87) | (13.2%) |
| | Total | 19,979 | 14,378 | 18,647 | +4,268 | +29.7% |

※Repeat business of all products including part of styling services and others.

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Page 16 shows non-consolidated and total sales of men's and women's by product and service.

First, please see all product services at the bottom of the page. Compared with the same YoY, sales in all segments except "Others" increased significantly. In the previous fiscal year, this others segment was the only segment to see an increase in revenue as it captured the demand for people staying at home, but in the current fiscal year, it was the only segment to see a decrease in revenue as it was affected by a decrease in the number of times TV shopping show went on-air.

In the segment by product and service in the upper row, new sales of hair extension products declined by more than 20% YoY, but we believe this was due to the significant impact of the expansion of COVID-19. Overall sales were generally in line with the plan.

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1H FY2022 : Breakdown of Sales by Product & Services in Men's Business (Non-consolidated Basis)



(¥ million)

| Net Sales | | 1H FY2020 | 1H FY2021 | 1H FY2022 | YoY Change | |
|-------------------------|-----------------|-----------|-----------|-----------|------------|---------|
| Custom-made Wigs | New Customers | 290 | 188 | 259 | +71 | +37.8% |
| | Repeat Business | 6,443 | 4,160 | 6,166 | +2,005 | +48.2% |
| | Total | 6,733 | 4,348 | 6,425 | +2,076 | +47.8% |
| Hair Addition Products | New Customers | 668 | 541 | 487 | (54) | (10.0%) |
| | Repeat Business | 1,029 | 779 | 1,050 | +271 | +34.8% |
| | Total | 1,697 | 1,320 | 1,537 | +217 | +16.4% |
| Hair Growth Services | New Customers | 55 | 46 | 36 | (10) | (22.0%) |
| | Repeat Business | 305 | 288 | 285 | (2) | (0.9%) |
| | Total | 360 | 334 | 321 | (12) | (3.8%) |
| Styling Services | | 2,266 | 2,247 | 2,272 | +24 | +1.1% |
| Others | | 518 | 491 | 521 | +29 | +6.0% |
| All Products & Services | New Customers | 1,014 | 775 | 782 | +6 | +0.9% |
| | Repeat Business | 10,562 | 7,967 | 10,296 | +2,328 | +29.2% |
| | Total | 11,576 | 8,743 | 11,078 | +2,334 | +26.7% |

※Repeat business of all products including part of styling services and others.

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Page 17 shows non-consolidated, men's sales by product and service.

As for the YoY in the men's business, new sales of hair extension products struggled due to the impact of the spread of COVID, but sales of mainstay made-to-order wigs increased substantially.

Although there is some unevenness in the sales of each product and service, the overall sales of men's business are generally in line with the plan.

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1H FY2022 : Breakdown of Sales by Product & Services in Ladies' Business (Non-consolidated Basis)



(¥ million)

| Net Sales | | 1H FY2020 | 1H FY2021 | 1H FY2022 | YoY Change | |
|-------------------------|-----------------|-----------|-----------|-----------|------------|---------|
| Custom-made Wigs | New Customers | 1,377 | 669 | 1,402 | +732 | +109.5% |
| | Repeat Business | 3,021 | 1,804 | 2,209 | +404 | +22.4% |
| | Total | 4,399 | 2,473 | 3,611 | +1,137 | +46.0% |
| Hair Addition Products | New Customers | 312 | 210 | 91 | (119) | (56.5%) |
| | Repeat Business | 723 | 452 | 702 | +249 | +55.0% |
| | Total | 1,035 | 663 | 793 | +129 | +19.5% |
| Hair Growth Services | New Customers | 6 | 4 | 5 | +1 | +24.2% |
| | Repeat Business | 237 | 228 | 294 | +65 | +28.6% |
| | Total | 243 | 232 | 299 | +66 | +28.5% |
| Styling Services | | 519 | 424 | 793 | +368 | +86.7% |
| Others | | 1,739 | 1,176 | 1,496 | +319 | +27.1% |
| All Products & Services | New customers | 1,696 | 884 | 1,499 | +614 | +69.5% |
| | Repeat business | 4,691 | 3,078 | 4,184 | +1,105 | +35.9% |
| | JULLIA OLGIER | 1,550 | 1,008 | 1,310 | +301 | +29.9% |
| | Total | 7,938 | 4,972 | 6,993 | +2,021 | +40.7% |

※Repeat business of all products including part of styling services and others.

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Page 18 shows non-consolidated and women's sales by product and service.

The ladies' business saw a significant increase in sales in all segments, excluding new hair extension products, due to the large decline in the same period last year.

However, the level has not reached the level before COVID-19 because the spread of COVID-19 still continues to reduce the opportunities to use our products for events, shopping, and dinners.

In particular, the new hair extension products have been deeply affected by this, and the progress has been even worse than the men's products, with a decline of over 50% from the YoY.

As in the case of men's products, sales of each product and service are slightly uneven, but overall sales of ladies' products are generally in line with the plan.

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**FY2022 : Breakdown of Sales by Product and Service
in Total Both Segments (Non-consolidated Basis)**



(¥ Million)

| | 1H FY2022 | | |
|------------------------|-----------|------------------------|----------------------------|
| | ①Results | ②Results before impact | ③Amount of impact (①-②) |
| Custom-made Wigs | 10,036 | 10,444 | (407) |
| Hair Addition Products | 2,331 | 2,337 | (6) |
| Hair Growth Services | 621 | 620 | +0 |
| Styling Services | 3,065 | 2,619 | +446 |
| JULLIA OLGER | 1,310 | 1,417 | (106) |
| Others | 1,281 | 1,282 | (0) |
| Total | 18,647 | 18,722 | (74) |

Applying "Accounting Standard for Revenue Recognition" from the start of the fiscal year ending March 31, 2022

- ①The cumulative effect of contract liabilities in the year of initial application was estimated and subtracted from retained earnings at the beginning of the period (decrease of approximately 1.65 billion yen)
- ②2Q FY 2022 impact of lower sales (decrease of approximately 70 million yen)

Page 19 shows the impact of revenue recognition on non-consolidated net sales by product and service.

We have adopted the accounting standard for revenue recognition from this fiscal year, and the impact in the first half was a decrease of approximately JPY70 million.

As you can see, sales corresponding to services and point allowances have been reduced from the made-to-order wig item, and that amount has been added to the sales of hairdressing and beauty services.

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**FY2022 : Breakdown of Sales Forecast by Products and Services
(Non-consolidated Basis/Total number of Men and Ladies)**



(¥ million)

| | FY2021 | | FY2022 | | | | |
|------------------------|-----------------|-----------------------|-----------------|---------------|--------------------|---------------|---------------|
| | 1H (Results) | Year-end (Results) | 1H (Results) | YoY Change | Year-end (Plan) | YoY Change | Progress rate |
| Custom-made Wigs | 6,822 | 18,584 | 10,036 | +47.1% | 20,016 | +7.7% | 50.1% |
| Hair Addition Products | 1,984 | 4,165 | 2,331 | +17.5% | 5,364 | +28.8% | 43.5% |
| Hair Growth Services | 567 | 1,195 | 621 | +9.4% | 1,369 | +14.6% | 45.4% |
| Styling Services | 2,672 | 5,373 | 3,065 | +14.7% | 5,534 | +3.0% | 55.4% |
| JULLIA OLGER | 1,008 | 2,761 | 1,310 | +29.9% | 3,434 | +24.4% | 38.2% |
| Others | 1,322 | 2,569 | 1,281 | (3.1%) | 2,942 | +14.5% | 43.6% |
| Total | 14,378 | 34,649 | 18,647 | +29.7% | 38,661 | +11.6% | 48.2% |

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Next, I will explain our plan for the full year.

Page 20 shows the non-consolidated sales plan by product and service for men's and women's.

As you can see, our mainstay made-to-order wig business has made good progress, and as for other items, hairdressing and beauty services have made considerable progress, partly due to the application of revenue recognition.

Although the trends for the end of the year and the beginning of the fiscal year after the declaration of the state of emergency are still unclear, we believe that the plan is fully achievable based on our future measures, as our sales in the second half of the year are usually larger than those in the first half.

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1H FY2022 : Breakdown of Sales Forecast by Products and Services Men's Business (Non-consolidated Basis)



(¥ million)

| | FY2021 | | FY2022 | | | | |
|------------------------|-----------------|-----------------------|-----------------|---------------|--------------------|---------------|---------------|
| | 1H (Results) | Year-end (Results) | 1H (Results) | YoY Change | Year-end (Plan) | YoY Change | Progress rate |
| Custom-made Wigs | 4,348 | 12,271 | 6,425 | +47.8% | 12,638 | +3.0% | 50.8% |
| Hair Addition Products | 1,320 | 2,885 | 1,537 | +16.4% | 3,357 | +16.4% | 45.8% |
| Hair Growth Services | 334 | 664 | 321 | (3.8%) | 852 | +28.2% | 37.8% |
| Styling Services | 2,247 | 4,499 | 2,272 | +1.1% | 4,508 | +0.2% | 50.4% |
| Others | 491 | 1,001 | 521 | +6.0% | 1,009 | +0.7% | 51.6% |
| Total | 8,743 | 21,322 | 11,078 | +26.7% | 22,366 | +4.9% | 49.5% |

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Page 21 shows the non-consolidated and men's sales plan by product and service.

Our mainstay made-to-order wig business is making good progress.

Progress in hair extension products has been slow at the 45% level, but we are aiming to make up for it with MRP Wonder we launched in September.

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1H FY2022 : Breakdown of Sales Forecast by Products and Services Ladies' Business (Non-consolidated Basis)



(¥ million)

| | FY2021 | | FY2022 | | | | |
|------------------------|-----------------|-----------------------|-----------------|---------------|--------------------|---------------|---------------|
| | 1H (Results) | Year-end (Results) | 1H (Results) | YoY Change | Year-end (Plan) | YoY Change | Progress rate |
| Custom-made Wigs | 2,473 | 6,312 | 3,611 | +46.0% | 7,377 | +16.9% | 48.9% |
| Hair Addition Products | 663 | 1,280 | 793 | +19.5% | 2,006 | +56.7% | 39.6% |
| Hair Growth Services | 232 | 530 | 299 | +28.5% | 517 | (2.5%) | 57.8% |
| Styling Services | 424 | 874 | 793 | +86.7% | 1,026 | +17.4% | 77.3% |
| JULLIA OLGIER | 1,008 | 2,761 | 1,310 | +29.9% | 3,434 | +24.4% | 38.2% |
| Others | 168 | 346 | 185 | +10.3% | 504 | +45.8% | 36.7% |
| Total | 4,972 | 12,105 | 6,993 | +40.7% | 14,867 | +22.8% | 47.0% |

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Page 22 shows the non-consolidated and women's sales plan by product and service.

As in the case of men's products, the progress of our mainstay made-to-order wigs is decent. We are aiming to make further progress with Feelin, which we launched in September. As with men's products, progress in hair extension products has been slow, at just under 40%, but this is partly due to the strong tendency for new customers to choose custom-made wigs.

In our opinion, this is a good trend, and we hope that the progress of our business performance will be seen in the combined total of made-to-order wigs and hair extension products.

Regarding the JULLIA OLGIER business in the lower part of the table, we had a very difficult time in the first half of the fiscal year due to the weakness in attracting customers to commercial facilities as COVID-19 was spreading. However, since vaccination has progressed, the spread of the infection has been curbed, and the state of emergency has finally ended, we believe that we can still make up for it as long as the customer traffic to commercial facilities returns.

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FY2022 : Financial Forecast



(¥ million)

| | FY2021 | | FY2022 | | | |
|------------------|------------------------|-----------------------|------------------------|------------|--------------------|------------|
| | 1H FY2021 (Results) | Year-end (Results) | 1H FY2022 (Results) | YoY Change | Year-end (Plan) | YoY Change |
| Net Sales | 14,793 | 35,868 | 19,329 | +30.7% | 40,363 | +12.5% |
| Men's Business | 8,743 | 21,322 | 11,078 | +26.7% | 22,366 | +4.9% |
| Ladies' Business | 5,288 | 13,060 | 7,485 | +41.5% | 16,052 | +22.9% |
| Others | 761 | 1,485 | 766 | +0.6% | 1,945 | +31.0% |
| Cost of Sales | 5,709 | 11,956 | 6,310 | +10.5% | 13,076 | +9.4% |
| Gross Profit | 9,083 | 23,911 | 13,019 | +43.3% | 27,286 | +14.1% |
| SG&A Expenses | 9,675 | 21,979 | 11,457 | +18.4% | 25,262 | +14.9% |
| Ad Spending | 2,041 | 5,412 | 2,884 | +41.3% | 6,740 | +24.5% |
| HR | 2,748 | 5,541 | 2,926 | +6.5% | 6,066 | +9.5% |
| Operating Income | (592) | 1,932 | 1,561 | - | 2,023 | +4.7% |
| Ordinary Income | (431) | 2,005 | 1,492 | - | 2,088 | +4.1% |
| Net Income | (446) | 840 | 857 | - | 1,045 | +24.3% |
| Depreciation | 444 | 900 | 402 | (9.3%) | 878 | (2.5%) |
| CAPEX | 402 | 885 | 608 | +51.0% | 1,977 | +123.4% |

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23

Page 23 shows the consolidated earnings plan for the full year.

As Naito explained, our full-year plan for the current fiscal year remains unchanged at the beginning of the period, although it is a conservative forecast due to the uncertainty of consumer trends after the end of declaration of the state of emergency.

For the full year of the fiscal year ending March 2022, net sales will increase 12.5% YoY to JPY40.3 billion. We are aiming for an operating income of JPY2 billion, up 4.7% from the previous fiscal year.

The reason for the large increase in SG&A expenses is that the Company plans to use them for strategic areas such as acquisition of new customers, expansion of the number of hairdressers and beauticians, and priority challenge measures.

This concludes my explanation. Thank you very much for your attention.

Nakagawa: Thank you very much for your explanation, Managing Director Naito and General Manager Honda.

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Question & Answer

Nakagawa: We will now move on to the Q&A session. Now for your first question.

We have received a question asking for a more detailed explanation of the reasons for not revising the earnings forecast. Please.

Naito: Now, I, Naito, would like to give you an answer to this question. I hope you will forgive me if there is some overlap with some of the explanations.

First, let's look at the sales figures. In the first half of the fiscal year, the results were almost in line with the plan. As for the second half of the fiscal year, although we are off to a very good start with the strong performance of Feelin for women, we have left the sales forecast unchanged for the full year in light of the fact that the return of customers is still uncertain after the declaration of the state of emergency. This is the first thing to be mentioned.

In addition, there is the profit side. 1 is that we are preparing various measures as a priority challenge for the second half of the year. In the first half of the fiscal year, some of the profits were deferred to the second half, and those deferred profits will come out again in the second half. In light of this, we believe that there is a reasonable amount of expenditure for expenses.

In the same way that we have left net sales unchanged, we would like to leave operating income unchanged as well. This is the end of our response.

Nakagawa: Thank you very much. Now for the next question.

I received a question asking us how we see the market environment and the wig market in the next 3 to 5 years. Please.

Naito: Then I would like to give you my answer to this as well.

In terms of the market environment and the wig market over the next three to five years, I believe that the trend for men will be about the same. We are not particularly worried about the demand, but on the other hand, we do not expect the market to expand explosively, so we expect it to remain almost flat.

On the other hand, for women, I have a feeling that the base of wigs is gradually expanding. In this sense, we believe that the upward curve will be gradual. That is all.

Nakagawa: Thank you very much. Now for the next question.

Please explain what an AI automated response system is. Please answer this as well.

Naito: I would like to explain this as well.

For inquiries from our customers by phone or e-mail, we have a contact center where we accept inquiries.

One thing about contact centers is that they are currently not available during the night and early morning hours. Also, especially during the daytime, right after a TV commercial airs, there is a rush of calls. As a result, if the number of callers is greater than the number of operators, calls can be missed.

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The AI automated response system that we have introduced this time recognizes the voice of the customer and responds to their name, address, or what they want, using AI functions to guide them and receive their response.

In the past, most automated response systems required the customer to press a button according to the content of the inquiry. However, with the recent evolution of technology, it is now possible to recognize the customer's voice and automatically guide the customer along a flowchart. Then, if necessary, we will call you back to accept your request for information or make an appointment with a counselor.

We have just issued a press release about the full-scale operation of the system, which will start in October, so please check it out. That is all.

Nakagawa: Thank you very much. Now for the next question.

Is there any thought of extending hair growth and hair growth products like Pharma Food's Newmo? We have received questions like this.

Naito: Now, let me explain this as well.

I have heard that Pharma Food's Newmo product is doing well, but I am not in a position to give detailed information about other companies.

We advocate the idea of being a comprehensive hair-related company, and we are willing to respond to all kinds of hair problems.

Naturally, we understand that hair growth is 1 of the needs of the market, but we don't want to specialize in hair growth like Pharma Foods and invest a lot of management resources in this specific area and grow only in this area. This means that we are a comprehensive hair-related company that has hair-growth business as well.

Then, 2 years ago, I started to challenge the business of hair regrowth. Then there is hair planting as well. In addition, wigs are also available, so we will be able to provide a 1-stop service to meet all of our customers' needs. At present, we do not plan to invest management resources in only 1 field. This is the end of the explanation.

Nakagawa: Thank you very much. The next question is here.

We were asked to explain our sustainability efforts. Who should be able to answer this?

Naito: Let me answer this as well.

Nowadays, the issue of sustainability is already appearing in the newspapers on a daily basis, and I believe that it is an issue of great interest.

Naturally, we also recognize that sustainability is 1 of the most important management issues to be addressed. We believe that we must be proactive in our efforts to increase our corporate value over the medium to long term.

However, there are a wide variety of issues, so we are now starting to consider what kind of system we should put in place in order to address to the situation.

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In terms of sustainability and SDGs, we have set up a page on our website this year to disclose information on SDGs. The SDGs and sustainability initiatives that we are currently working on are shown on our website, so please take a look when you have time.

In addition, the revised Corporate Governance Code also places high demands on listed companies to address the issue of sustainability. We will continue to consider this as a management issue. This is the end of the explanation.

Nakagawa: Now for the next question.

In terms of market selection, we have received questions such as whether our company will choose the prime market and what is the significance of this choice. Please answer this as well.

Naito: Let me give you my answer as well.

First of all, we have not made any institutional decision on whether or not we will choose the prime market, so we would like you to wait for a while for our official response.

However, as I explained earlier, we have received the results of the initial assessment that the market is consistent with the prime market.

We also want to clarify the significance of becoming a listed company. We advocate that we are a comprehensive hair-related company, and we recognize that we are the only listed company among the comprehensive hair-related companies.

In addition, the prime market is the highest level of the domestic market. I feel that being listed on such a market is very meaningful in terms of gaining the trust of our customers, and I believe that this will be the case in the future as well. The first point is that we are considering this as 1 of the ways to gain the trust of our customers.

Secondly, in the prime market, there are naturally high demands on governance and the concept of sustainability as mentioned before.

By working diligently on these issues, we will be able to increase our market value in a sounder manner and become a company that is trusted by customers, shareholders, and the market. These are the reasons why we think it would be meaningful for us to be listed on the Prime Market. That is all.

Nakagawa: Let's move on to the next question.

Please explain the progress of the medium-term management plan and future prospects. Then, please go ahead with your answers as well.

Naito: I would like to explain this as well.

As for the business results for this fiscal year, as I mentioned earlier, we are generally progressing as planned. In terms of business performance and major initiatives, we are halfway through our plan.

Next year will be the third year of the mid-term management plan. First of all, our mid-term plan calls for sales of JPY44 billion.

As for the JPY44 billion, if we roughly divide it into existing businesses and new businesses, if there are no major factors such as COVID-19, we can see the existing businesses reaching our goal to some extent, but for new businesses, I think we still have a lot of work to do.

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The level of profit and ROE will be determined by how the new businesses are able to achieve the JPY44 billion in sales.

Therefore, for the next 6 months or the next year, we would like to focus more on new businesses. This is the end of the explanation.

Nakagawa: Thank you very much. Now for the next question.

There seems to be a tendency for sales to be unevenly distributed in the second half of each year. Please answer this question as well.

Naito: I would like to respond to this as well.

This is the reason why sales are unevenly distributed in the second half of the year. 1 reason is that customers tend to want to buy new wigs in the fall and winter, not in the summer.

We also announce new products in order to stimulate customer demand, and we usually announce new products in March and September. As I mentioned earlier, MRP Wonder and Feelin are doing very well, and it is also true that new products announced in September tend to drive orders and sales in the second half of the year.

However, I think that the main reason why customers want to buy new wigs is that their needs are greater in the winter season, when it is slightly colder, which is a better season to wear wigs, than in the hot summer season. That is all.

Nakagawa: Next is this one.

Could you be more specific about the new area? Please answer this as well.

Naito: Honda of the management planning division would like to answer this question.

Honda: I would like to give you my response to the new area of business.

Unfortunately, we have not yet been able to announce or disclose any information on new business areas at this time. However, we would like to make it through domestic and international M&As and the launch of new businesses.

As for the new business field, we would like to somehow create it in the industry adjacent to the comprehensive hair-related industry, which is where we currently stand. In the future, we will be thinking about what areas we need to work on.

Most recently, in March 2021, we made a partial capital investment in a company called Think Lands as part of a capital and business alliance. This is a company that makes microneedles, which are very thin needles.

The most recent field we have entered is the field of beauty care and medical care, and we would like to think about whether we can develop new commercial products and products in cooperation with this company in the future.

As for the rest, we can't say anything at the moment, but we will consider it in the future.

Nakagawa: Thank you very much. This concludes the financial results briefing of ARTNATURE Inc.

[END]

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