

## Presentation

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**Moderator:** The end of [inaudible] is scheduled for 5:00 PM. Thank you.

First of all, Chairperson Igarashi, please begin your explanation.

**Igarashi:** I am Igarashi from ARTNATURE INC. Thank you very much for attending our earnings presentation today.

Now, let's get right to the explanation. First, I will provide an overview of the financial results for the fiscal year ended March 31, 2024.

These are the financial results for the current fiscal year. Although net sales and operating income exceeded the revised plan, both sales and income decreased from the previous year.

As for the breakdown of sales, sales in the men's business and other departments declined from the previous period, while sales in the ladies' business increased from the previous period.

Next, please see the graph of performance trends. This graph shows net sales and operating income for the past 10 fiscal years, including the current fiscal year.

Although sales and profits declined during the period, net sales were the second highest since the Company's listing.

We will now explain the progress of our three-year medium-term management plan, of which FY2023 is the first year.

First, let me explain our company's vision. The contents are as shown on the slide, and the stage is set for the realization of the long-term vision, with the vision of "Pioneering the Next Generation: ARTNATURE's Leap Forward," building on the achievements to date to make further strides.

Here is an overview of the medium-term management plan, the ARTNATURE Advance Plan.

In the current medium-term management plan, we are aiming for the next major milestone of JPY50 billion in net sales, and the entire company will work together to achieve double-digit growth in both ordinary income margin and ROE.

I will now explain the progress made in the first year of the medium-term plan, the fiscal year ending March 31, 2024.

This slide shows the progress of the major themes of the medium-term management plan, namely, value creation, sustainability, and dialogue with the market, on the right side of the slide. After this, I will explain each point one by one.

Here is a slide that summarizes the progress of value creation. Despite our efforts to establish a position as a market leader in the domestic hair market by maximizing sales and domestic market share, the Company recorded declines in both sales and profits during the period under review.

For repeat business to women, we were able to meet the plan by successfully capturing replacement demand, but new sales did not meet the initial plan as both men and women fell short of the plan.

We view the failure to achieve the plan for new sales as a result of our inability to fully translate the revitalization of personal consumption following the transition to Class 5 of COVID-19 into wig purchases, as well as our inadequate response to web inquiries from the increasing use of the Internet by seniors.

This slide shows the flow from approaching potential demand to establishing them as our customers. In promoting new sales, which struggled in the current fiscal year, the Company focused on increasing sales volume through the initiatives described in the upper and lower sections.

The initiatives in the upper section are efforts to increase the response from advertisements, and we have been actively reviewing the content of promotions for men and women.

The initiatives in the lower section are efforts to increase response from sources other than advertising, and we are in the process of implementing initiatives such as collaboration with facilities opening new stores to create new channels that differ from the traditional flow of new introductions.

We intend to continue these efforts to recover new sales.

There are many ways in which we are promoting with sustainability, and I would like to explain the progress of the construction of our new plant in Bangladesh.

The purpose of the establishment is to prepare for country risks such as natural disasters and political risks in the Philippines, which is the only country where production is concentrated, and to secure production lines for future business expansion, in order to achieve sustainable enhancement of corporate value.

As for progress during the fiscal year in question, we have only established a subsidiary. In the current fiscal year, we will start construction of a factory and secure local labor force for the factory in the final year of the medium-term management plan.

Then, regarding the dialogue with the market. In October last year, we changed our market from the Prime market to the Standard market. In March of last year, we announced our plan to comply with the listing maintenance standards, and the content of this slide summarizes the implementation status at this point in time.

Although the market has recently been changed to the Standard market, we will continue to implement the initiatives set forth in this plan with the aim of further enhancing our corporate value over the medium to long term.

We will now explain our full-year plan for the fiscal year ending March 31, 2025.

This is the plan for the current fiscal year ending March 31, 2025. In the previous fiscal year, both sales and profits declined, but we aim to increase both sales and profits in the current fiscal year.

On the sales front, we will focus on new sales activities for both men and women. As for cost of sales, we are considering replacing raw materials in order to curb cost increases due to effects of high prices of commodities and foreign exchange rates, and we are also considering price revisions for existing models in order to reduce the cost ratio.

SG&A expenses will be used efficiently for various expenses while promoting staffing replacements and compensation improvements. Honda will explain the details later.

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This slide explains the main management indicators in the medium-term management plan. Although the revised plan for the fiscal year ending March 31, 2025, the second year of the medium-term plan, is lower than the original plan, we are determined to achieve this plan first and foremost.

And we aim to achieve the initial plan in the final year of the medium-term management plan by continuing to work on measures for new sales, returning sales to the track originally planned, and improving the profit structure by increasing operational efficiency and productivity.

Finally, I would like to explain our shareholder return policy. Effective from the current fiscal year, in addition to the basic policy of striving to maintain stable and continuous dividends, we have established a new dividend policy as described on the slide.

Based on this approach, we will pay an interim dividend of JPY14 and a year-end dividend of JPY14 for the fiscal year ending March 31, 2024, for a full-year dividend of JPY28.

For the current fiscal year and thereafter, we plan to pay dividends based on the concept described in the slide. The entire company will continue to work together to achieve a double-digit profit ratio and ROE as soon as possible.

This concludes my explanation.

**Moderator:** Thank you for your explanation. Next, please welcome General Manager Honda.

**Honda:** Once again, I am Honda from ARTNATURE. I will now explain the financial results for the current fiscal year, focusing on the numerical aspects.

The first will be a summary of the consolidated results for the fiscal year ending March 31, 2024. Net sales for the period amounted to JPY42.8 billion, down 0.8% from the previous period. Details are explained on the next page and beyond, but the main reason was the struggle for new sales.

Cost of sales increased 0.5 percentage points from the previous period to JPY14.1 billion. As a breakdown, product cost increased by 0.1 point due to changes in the sales mix, yen depreciation, and higher prices of commodities, while HR increased by 0.4 point due to the impact of shrinking sales, which is strongly related to fixed costs, in addition to compensation improvements such as increases in basic salaries.

SG&A expenses increased 1.9% from the previous year to JPY26 billion. The ad spending decreased by 0.2 percentage points due to continued restrained operations, while HR increased by 1 percentage point due to the same impact as HR costs above. Other increased by 0.8 percentage points, mainly due to a review of asset retirement obligations.

As a result, operating income decreased 25.7% from the previous year to JPY2.6 billion. The increase in depreciation is mainly due to a review of asset retirement obligations.

The increase in capital expenditures was mainly due to the renewal of information systems. In addition, approximately JPY300 million related to the new factories was recorded for the current fiscal year.

This is followed by sales by product and service. I will explain by male and female customers later, but overall, repeat business was solid and JULLIA OLGAR grew by double digits, but new sales were significantly lower than in the previous year, resulting in a decline in sales.

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By product, sales of styling services increased JPY500 million from the previous year due to price revisions in October 2022, while sales of other products decreased JPY300 million from the previous year, mainly due to a review of sales policies in the mail-order business.

Next will be the stand-alone sales by product and service in the men's business. Sales by men's products and services, as shown in the All Products & Services column at the bottom, were down 1.8% overall, with new customers down 19% and repeat business down 0.4%.

By product, repeat business of custom-made wigs was sluggish, resulting in a YoY decline. New customers of hair addition products declined from the previous year due to a promotional strategy emphasizing wig appeals. Styling services increased YoY due to price revisions.

Next will be the stand-alone sales by product and service in the ladies' business. As for sales by women's products and services, as shown in the All Products & Services column at the bottom, new customers were down 16.9%, repeat business was up 6.3%, JULLIA OLGGER sales were up 12.2%, and overall sales were up 1.5%.

By product, new customers for custom-made wigs were down from the previous year, partly because the response to the Feelin' series, which had been popular until the previous year, has calmed down. JULLIA OLGGER posted double-digit gains over the previous year due to a recovery in customer traffic to commercial facilities as well as further strengthening of our internal structure.

This is followed by the consolidated change factors for the year ending March 31, 2024. As you can see, consolidated ordinary income decreased due to the decrease in profits resulting from lower sales, an increase in cost of sales resulting from the weaker yen and higher prices of commodities, and an increase in personnel expenses resulting from company-wide compensation improvements.

By item, gross profit declined JPY0.4 billion YoY due to a decrease in profits resulting from the decline in sales, HR increased JPY0.3 billion YoY due to improved compensation such as increases in basic salaries, and depreciation expenses increased JPY0.2 billion YoY due to a review of asset retirement obligations, resulting in ordinary income of JPY2.7 billion, down JPY0.8 billion YoY.

As for the monthly sales trends of major products, the sales of both men and women were 96.5% as shown in the table of sales of main products in the upper right corner due to the struggle of new sales.

Regarding total customer traffic, as shown in the table of customer traffic at the upper right, the number of male customers continued to decline gradually after the COVID-19 pandemic while the number of female customers remained almost unchanged.

Lastly, I would like to explain our plan for this fiscal year. Details will be explained on the next and subsequent pages, but first, I will explain our full-year consolidated earnings plan for the fiscal year ending March 31, 2025.

In the current fiscal year, we are aiming for net sales of JPY45 billion, up 5% from the previous fiscal year, by increasing sales mainly in the ladies' business.

By keeping the growth rate of overall expenses below the growth rate of net sales, we hope to achieve a 9.7% increase in operating income over the previous year, to JPY2.9 billion.

Product cost is expected to increase by 0.6 percentage points, considering the impact of changes in the sales mix, yen depreciation, and higher prices of commodities.

The increase in depreciation is due to the same reasons as in the year ended March 31, 2024.

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In addition, capital investment is expected to increase by about JPY1.9 billion to JPY3.9 billion. This will include an increase of approximately JPY600 million to JPY1.5 billion for store facilities, an increase of approximately JPY300 million to JPY900 million for systems, and an increase of approximately JPY800 million to JPY1.1 billion for new factories.

This is the non-consolidated men/ladies sales plan by product and service for the fiscal year ending March 31, 2025. I will explain the difference between men and ladies later, but, as you can see, as a whole, we plan to continue to grow JULLIA OLGIER by double digits while maintaining stable growth of our mainstay custom-made wigs.

This is the sales forecast by product and service in the men's business on a non-consolidated basis. The men's sales plan by product and service is targeted at JPY23.2 billion, an overall increase of JPY400 million from the previous year, with a focus on recovering new sales through the introduction of events for men and efforts to increase new responses, such as appeals from the Internet.

By product, we aim to increase sales of custom-made wigs by JPY200 million YoY to JPY13.9 billion, and hair addition products by JPY100 million YoY to JPY2.8 billion.

This is the sales forecast by product and service in the ladies' business on a non-consolidated basis. The sales plan by product and service for women is to increase new sales by improving the system for accepting new customers and strengthening the response to web inquiries, as well as by strengthening coordination across the entire ladies' business, while steadily increasing repeat business, with an overall target of JPY18.7 billion, up JPY1.4 billion from the previous year.

By product, we aim to increase sales of custom-made wigs by JPY100 million YoY to JPY8.6 billion and hair addition products by JPY100 million YoY to JPY1.2 billion, while for JULLIA OLGIER, we aim to increase sales by JPY800 million YoY to JPY5.2 billion by opening new stores in areas where they have not yet opened, in addition to its existing measures.

As you can see, the factors behind the changes in the consolidated ordinary income plan are to recover new sales for men and women, and to increase sales, especially in the ladies' business.

Although cost of sales will be adjusted for cost increases in consideration of the current situation, the growth rate of cost of sales will be kept below the growth rate of net sales, and ordinary income is targeted at JPY2.9 billion, an increase of JPY200 million from the previous year.

The entire company will continue to work together to achieve the full-year plan.

That concludes my presentation. Thank you very much.

**Moderator:** Thank you very much.

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## Question & Answer

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**Moderator [M]:** We will now take your questions. Please note that we will answer your questions while sitting down due to the materials we have available.

Now, if anyone in the audience has any questions, please raise your hand, and let us know. A staff member will hold the microphone for you. Are there any questions? Well then, the man in the blue shirt.

**Questioner [Q]:** I am Ota from The Nihon Keizai Shimbun. Thank you. The sales target for the current fiscal year is JPY45 billion, and the target for the next fiscal year, the final year of the mid-term plan, is JPY52.3 billion, which I think is quite a long way away. Compared to the growth rate so far, I think this is a very high hurdle to overcome, but I would like to ask you in more detail about how you plan to achieve this goal. For example, you may be required to take more aggressive measures, such as opening more stores or launching a new line. What are your thoughts on the matter?

**Honda [A]:** Regarding your question about the final year of the medium-term management plan, as the Chairperson explained earlier, we would like to first firmly address the current issue of struggling new sales during the current fiscal year.

As explained earlier, the biggest reason for not meeting the target for the previous fiscal year was the struggle for new sales, and our current approach is to first do our utmost to resolve this issue this fiscal year.

Our current thinking is to achieve solid results here, and based on those results, challenge the initial targets for the final year.

All of our executives and employees are doing their utmost to meet the expectations of our shareholders and investors, so I think that we will have to wait for a while to see whether the contents of the plan are successful or not. That's my answer.

**Questioner [Q]:** Thank you. You are slightly behind this fiscal year, and you are trying to make up for what you were unable to accomplish in the previous fiscal year. If the lag is not made up this fiscal year, is there any possibility that the target may be slightly missed or lowered?

**Honda [A]:** It is difficult to say what we are going to do now, but we are working to exceed our target of 450 for this fiscal year, so I guess it depends on the results. If we can greatly exceed the target, of course we will be well within our reach, but if we fall far short, we will of course consider the possibility of a situation like you mentioned.

**Questioner[M]:** Thank you.

**Moderator [M]:** Thank you for your questions. Are there any other questions? Well then, the man in the front row.

**Questioner [Q]:** I am Tanaka from Aozora Bank, Ltd. Thank you for your explanation. I understand that you are focusing on new customers in order to resolve the issues you faced in the previous fiscal year and the issues you will face this year, but is your struggle to attract new customers limited to your company or the industry as a whole? Please let me know if you have any recognition of this.

**Igarashi [A]:** Okay. I will be happy to answer your question. I think your concern about the industry as a whole, not just us, is correct, as you are concerned about the growth of this new business.

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However, as Honda explained earlier, we have already established a variety of measures to deal with the problems of new customers we encountered in the previous fiscal year, so that is something that will happen in the future, though, the biggest problem with new customers is how to respond to the market and meet its needs, and as you know, in our case, this is especially true for new products, or simply put, hit products.

We wondered how to bring those things out. At the same time, we are devoted to how to notify the market of the hit products and have them recognized, and this will no doubt lead to increased sales. We are currently planning various expansions in development, advertising, and other areas, and we hope to produce results that will not disappoint.

**Questioner [Q]:** Thank you for your answer. One more question: I believe that until a few years ago, your company's market share in the industry was disclosed separately for men and women, but for some reason you no longer do so. I would appreciate it if you could comment on the fluctuation of the share, whether or not it is a gut feeling, as far as you can disclose.

**Honda [A]:** Regarding market share, the company that provides us with information has asked us to stop disclosing figures or making comparisons with other companies' figures, so we are only able to show the size of our company.

The results from about two years ago show that our market share has been gradually increasing. We are aware of this for both men and women.

If you asked me about the last fiscal year, I would say that the results of the last fiscal year are being compiled for each company right now, so I would have to look ahead to the next fiscal year.

If the size of the market itself is as large as this company has indicated, it is possible that we will maintain or even increase our market share in terms of sales for this fiscal year.

**Questioner [M]:** Thank you. That is all.

**Moderator [M]:** Thank you for your questions. Are there any other questions? Does anyone have any questions?

I have questions that were sent to me by e-mail in advance, and there are some duplicates of the questions you just asked, so I would like to ask the Company to answer just one question excluding those. I will read it out.

**Participant [Q]:** You have established a new dividend policy from the current fiscal year, and I would like to know what you are thinking about shareholder return measures such as dividends and shareholder benefits in the future. Please answer just this one question.

**Igarashi [A]:** One of the questions the moderator collected from you asked what we are thinking about in terms of shareholder returns such as dividends and shareholder benefits.

With regard to dividends, a new dividend policy was established from the previous fiscal year, based on a consolidated dividend payout ratio of 40% or more, with a minimum annual dividend of JPY28, aiming to raise the dividend level in line with consolidated business performance. However, until we achieve an ROE of over 10%, our basic policy is to maintain a consolidated dividend payout ratio of 50% or more.

We will determine future profit distribution in accordance with the newly established dividend policy and will work to secure stable dividends on an ongoing basis.

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Another issue is that we will carefully consider share buybacks, considering the Company's future business performance, business development, and capital policy, as well as disadvantageous aspects such as reduced liquidity.

We often hear requests from individual investors for shareholder special benefits, but we will carefully consider such requests after considering the internal and external environment.

That is all.

**Moderator [M]:** Thank you for your answer. Well then, do you have any questions? If there are any questions from the audience, we would be happy to take them. We hope we have explained ourselves well enough.

Thank you. We will now conclude the question-and-answer session.

Also, please fill out the questionnaire that we asked you to fill out at the beginning of the meeting and leave it on your desk before you leave the meeting.

Also, there is a great opportunity. After the meeting, please come to the front if you wish to exchange business cards.

This concludes today's financial results briefing. Thank you very much for coming today.

[END]

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