

Presentation

Takasaki: Thank you very much for joining us today for the second quarter financial results presentation of ARTNATURE INC. Here are today's attendees. Managing Director Isao Naito.

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

Takasaki: Senior Corporate Officer and General Manager of the Management Planning Division Toshio Honda.

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

Takasaki: My name is Takasaki, the moderator. Thank you very much for your cooperation.

First, Managing Director Naito will give an overview of the financial results for the second quarter of the fiscal year ending March 31, 2026, followed by General Manager Honda's explanation of the financial results for the second quarter of the fiscal year ending March 31, 2026 and the outlook for the full year.

We will then move on to the Q&A session. Your questions are always welcome, even during the course of viewing the explanation. Please write your comments in the comment box on the screen you are viewing.

We would also appreciate your cooperation in filling out the questionnaire to assist us in our future IR activities. To complete the survey, please click on the link at the bottom of the screen, under the Explainer Materials tab, and click here for the survey. I will now move on to the explanation of the financial results.

First, Managing Director Naito, please begin.

Naito: Greetings, this is Naito from ARTNATURE. Thank you very much for watching our web-based financial results presentation today. Now, let's get right to the explanation.

I will begin by providing an overview of the financial results for the first half of the fiscal year ending March 31, 2026 and the progress of the medium-term management plan. First, I will explain the key points of the first half results. Page 2.

As shown in the upper chart in the red frame, the first half results showed an increase in both sales and income compared to the same period last year.

As for the breakdown of sales, Men's business has recovered from two consecutive fiscal years of declining sales, and this fiscal year we have turned the corner with an increase in sales. Ladies' business continues to reach record highs.

Progress toward the full-year plan is as shown on the far right of the table, with operating income in the lower row generally in line with the plan.

The graph at the bottom shows quarterly changes in sales and operating income margin. In the first quarter of the current fiscal year, sales fell below the previous year's level due to the impact of the extended delivery period, but in the second quarter, the extended delivery period was resolved, and sales gradually increased.

I would like to continue with an explanation of the progress of the medium-term management plan. This is the slide on page 4.

This fiscal year was the final year of the medium-term management plan, the ARTNATURE Advance Plan. On the right side of the page, you will see a summary of our progress on the three main themes of value creation, sustainability promotion, and dialogue with the market. I would like to explain each of them one by one.

First of all, on page 5, the first of the main themes, value creation, is the explanation of the extension of delivery time.

I explained this a little earlier, but the reason for the extension of the delivery date is written at the bottom of the slide. The typhoon in November last year caused a decline in operating rates at our Philippine plant and surrounding contractors, which resulted in an extension of the manufacturing period, leading to the extended delivery date.

As shown in the upper graphs, both men and ladies started the first quarter of the year much lower than the previous year.

At present, production has returned to normal operation and deliveries are recovering steadily month by month, as shown in the graph. The situation is steadily recovering with each passing month. Finally, we settled on an increase in revenue for the first half of the year.

Continuing on, I would like to reflect a bit on the Men's business. Page 6.

We believe that men have a wide range of needs depending on the depth of their hair concerns, from those who strongly desire wigs and hair extensions to those who need daily hair care.

In response to these various needs, we are working to acquire new customers by developing direct-response marketing centered on advertising.

The middle of the slide shows a section called "Direct-response marketing," and while we have traditionally focused on advertising, as shown in the upper part of the slide, we are now taking on the challenge of acquiring new customers through measures other than advertisements, and we are taking on various other initiatives.

We would like to introduce some examples of such efforts in the first half of the year.

On the left side, the measure targets users of social networking services. The example on the left shows how we personalize the delivery area and other aspects of the content so that the viewer can view it as his or her own personal matter.

On the right side, there is a fixed-rate service, and you can see the appeal on the homepage here.

This is our first attempt to disclose or show our prices to new customers. We believe that this measure has contributed to eliminating psychological barriers in terms of price.

In this way, we are implementing a variety of measures to address the various needs related to hair loss, from the approach stage to the consumption behavior stage. We intend to further brush up on various initiatives to achieve stable growth in the Men's business.

Page 8 is a review of the Ladies' business. Looking at the Ladies' business as a whole, as shown in the graph on the slide, annual sales have continued to reach record highs, and we are now working toward our goal of reaching new highs again this fiscal year.

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The custom-made wig for ladies, “Feelin,” which went on sale in September 2021, was a big hit, and sales of this product expanded significantly, but recently, this trend has been calming down a bit. Currently, we are focusing on efforts to create new value in order to further stimulate demand.

In the slide on page 9, I would like to introduce a few samples of our efforts to create value in the Ladies’ business and the ready-made business for ladies.

On the left side, we opened a new flagship salon, Grand Salon Ginza, in September as a business for ladies. We created this store to address the growing concerns of seniors about their hair in recent years, and to provide a space where customers can spend a special moment.

On the right side, I would like to introduce a topic related to the ready-made business for ladies. This October, we launched something called the Disney Wig Collection.

Our group’s advanced technology has realized the style of Disney characters that provide dreams and excitement to customers ranging from children to adults. We are working to convey the appeal of character wigs to a wide range of age groups.

As the second main theme, I would like to introduce some topics related to the promotion of sustainability.

We are currently constructing a new plant in Bangladesh for the purpose of diversifying production risks and expanding production capacity, and we have reached the point where the plant is scheduled for completion at the end of November. Currently, we are focusing on training factory staff in order to start up production at the new factory on schedule.

I would like to explain the third major theme, dialogue with the market.

As an additional shareholder return measure, we have established a shareholder special benefit program this fiscal year, which has long been requested by many individual shareholders. It is a point-type shareholder benefit called the ARTNATURE Premium Benefits Club.

This is a special benefit for shareholders who hold 700 or more shares as of the end of September. This is a new measure for shareholder return that was started as a long-term effort to increase the attractiveness of our company’s stock, increase the number of individual shareholders, and improve our trading volume.

We will continue to brush up the content of our premium benefits based on feedback from our shareholders.

We will also continue to engage in dialogue with the market through IR activities such as today’s briefing sessions for institutional investors and monthly events for individual investors.

I will now explain our full-year plan for the fiscal year ending March 31, 2026. This is the table on page 13.

Based on the results of the first half of the fiscal year and our plans for the second half, we have decided to leave the full-year plan for the fiscal year ending March 31, 2026 unchanged from the initial plan. As written in the comments at the top of the page, we are planning to increase sales and profits by entering new areas and focusing on business for ladies.

As for sales, both men’s and ladies’ sales are currently progressing as planned on an order basis. We intend to continue this initiative in the second half of the year.

The other sales figures include the acquisition of business in new areas. We are currently considering a variety of projects but have not yet reached a point in the first half of the year where we are able to make them a reality. We will continue to make every effort to achieve the planned values set forth in our initial plan.

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Next is page 14. The upper graph shows net sales on the left, operating income on the right, and the blue bars circled in red indicate the difference between the full-year plan and the first-half results.

First, let's look at the sales figures on the left side. As I mentioned earlier, we are currently developing new products and promotions for men and ladies, especially in the fall. We are planning to build up sales in the second half of the fiscal year with these sales.

I mentioned at the beginning of this presentation that the delivery extension occurred in the first quarter, but it is expected to be completely resolved in the second half of this fiscal year.

As I explained earlier, our sales plan for the second half of the year includes sales from new areas of business. We are now working diligently toward achieving the plan.

Then, on the right side, we have operating income. In terms of expenses, we will continue to maintain a conservative management style to keep total expenses within the annual plan, but we will also take a firm stance to invest management resources where they should be spent.

On page 15, we present a list of the main management indicators in our medium-term management plan. The key indicators for sales, ordinary income ratio, and ROE, which are the key indicators, are shown in the white space on the far right of the table.

In the bottom row, for the cost of capital, the figures for previous years are written. Please refer to the last page of the reference material for the method of calculating the cost of capital.

We will continue to work toward our goal of maintaining and expanding a positive equity spread, and we hope to achieve a double-digit ROE as soon as possible.

Finally, I would like to explain our shareholder return policy. During the period of the medium-term management plan, we formulated a new dividend policy, which is shown a little above the middle of the slide.

Based on this dividend policy, we have announced a forecast of an interim dividend of 14 yen and a year-end dividend of 14 yen for the current fiscal year, for a full-year dividend of 28 yen. This concludes my explanation.

Honda of the Management Planning Division will now explain the details of the financial results.

Thank you for your attention.

Honda: This is Honda from ARTNATURE. I will now explain mainly the numerical aspects of the interim financial results.

Both sales and income increased in the interim period compared to the same period of the previous year. Net sales were JPY21.4 billion, up 1.7% from the same period last year. However, progress on the plan has been somewhat slow, at approximately 45%. The main reason for this delay was lower-than-expected new sales of custom-made wigs for ladies.

Cost of sales was JPY7.2 billion, almost the same level as the same period last year, and the cost of sales ratio improved by 0.4 percentage points. This includes a 0.4-point decrease in the product cost due to the sales mix and foreign exchange effects, and a 0.1-point decrease in HR.

SG&A expenses were JPY12.8 billion, almost unchanged from the previous year, but the SG&A ratio improved by 0.7 percentage points. Of this amount, ad spending was reduced by approximately JPY200 million through restrained and efficient management, and this ad spending ratio declined by 1.4 percentage points. As a result, operating income was JPY1.3 billion, approximately JPY200 million more than the same period last year.

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In addition, CAPEX increased approximately JPY900 million from the previous year. The main reason for this is related to facilities for new stores and a new factory in Bangladesh.

Next, I will explain the factors behind the increase or decrease in ordinary income. As you can see, the positive factor in profit was about JPY800 million and the negative factor was about JPY400 million, resulting in a year-on-year increase of JPY370 million to JPY1.46 billion.

The breakdown is as follows: In terms of positive factors, gross profit increased by JPY310 million due to the increase in sales, and by JPY240 million due to curbing and streamlining ad spending. Non-operating income was boosted by JPY130 million due to foreign exchange losses and another JPY70 million due to a decrease in exhibition costs.

On the other hand, negative factors included an JPY80 million increase in DX-related depreciation. HR increased by JPY60 million due to improved compensation and other factors. Others increased by JPY250 million, mainly due to increased expenses associated with the new plant and the introduction of shareholder benefits.

As a result, ordinary income remained steady at JPY1,460 million.

Next, here are the monthly sales trends for the major products. As shown in the table above right, both Men's and Ladies' exceeded the previous year's figures, shifting from declining revenues to increasing revenues. Ladies' products, in particular, are doing particularly well, at 104%.

Next is the monthly total number of customers visiting the store. As shown in the table at the top right, the percentage of male visitors was 98.8%, showing a gradual downward trend, while the percentage of female visitors was 96.1%, down from the previous year. The downward swing for ladies is due to an extended visit cycle and slowdown in the number of new introductions, as well as a record-breaking heat wave.

In the future, we will redesign the motivation to visit the store through measures to encourage return visits and hands-on events.

Page 22 shows non-consolidated sales by product and services for men and ladies. Overall, as shown in the All Products & Services column at the bottom, new sales were essentially flat, but repeat business and JULLIA OLGER were strong, resulting in an increase of 1.8% over the same period last year.

By product, the mainstay custom-made wigs and hair addition products also increased.

Next, page 23 shows non-consolidated sales in the Men's business. As shown in the All Products & Services column at the bottom of the page, both new customers and repeat business were up, resulting in a 0.8% increase in sales over the same period last year.

By product, both custom-made wigs and hair addition products increased. We believe that our measures to obtain responses from non-advertising channels are gradually showing results.

This is followed by the initiatives of the second half of the year for the Men's business.

In the Men's business, we will strengthen our appeal through the Internet and social media and further expand measures to obtain responses from non-advertising channels. In addition, we will promote a differentiation strategy by introducing high value-added products that other companies do not offer in order to raise unit sales prices.

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Next on page 25 are sales figures for the non-consolidated ladies' business. As shown in the All Products & Services column at the bottom, although we struggled with new customers, we were able to steadily capture replacement demand from existing customers, resulting in an increase in repeat business and an increase in sales of JULLIA OLGIER, resulting in an overall increase of 3.6% YoY. By product, both custom-made wigs and hair addition products increased.

JULLIA OLGIER has been successful in expanding into Hokkaido and other areas where it has not yet opened stores, as well as in collaborating with commercial facilities on events.

Next are the initiatives for the second half of the year for the Ladies' business. In the Ladies' business, we will aim to expand sales by strengthening our store management system and promotions, centered on our new flagship store, Grand Salon Ginza, which opened in late September.

In the ladies' ready-made business, we will also aim to expand sales in the Ladies' business as a whole by attracting new customers through efforts to create new value, such as the development of Disney character wigs.

Finally, here is our full-year consolidated earnings forecast for the fiscal year ending March 31, 2026. The initial forecast remains unchanged, and we will continue our efforts to date. We will aggressively promote various measures to expand our business performance, aiming to increase sales to JPY47.6 billion and operating income to JPY2.7 billion, respectively.

We will recover sales in the second half of this fiscal year by building up new introductions of ladies, obtaining responses from non-advertising channels, and introducing new products in the fall, among other measures, to make up for the delay compared to the plan that occurred in the first half of the fiscal year.

This concludes my explanation. Thank you for your attention.

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Question & Answer

Takasaki [M]: Thank you very much for your explanation, Managing Director Naito and General Manager Honda. We will now move on to the question-and-answer session.

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If you are viewing this page from a smartphone, please scroll down the screen to display the input area. The sending method and so on are the same. We look forward to receiving your messages.

Participant [Q]: Okay, first question. The question is whether you need to revise your full-year earnings forecast based on the first-half results. What do you think?

Naito [A]: I would like to give an explanation here.

I am sure there is some overlap between Honda's explanation and my initial explanation, but I hope you will forgive me for this.

As for sales for men, the first half of the year has so far gone smoothly, and orders for the second half of the year are also on track, so we are almost in the clear.

In the Ladies' business, we were a little late in launching custom-made wigs, but we are now trying to revive the business with new products in the second half of this fiscal year, and we are getting a good response. As for JULLIA OLGIER and others, they are also doing well so far.

As I explained at the beginning of this presentation, we have yet to see results in the new areas, so we will have to strengthen our efforts in this area.

As a total, we are now at a point where we can make maximum efforts to reach our original plan for sales.

In terms of profit, there will be some bumps in various items such as costs and expenses, but we currently expect to land within the range of our original plan. Therefore, we do not intend to revise our original plan for sales or profit at this time. This is my response.

Participant [Q]: I have a follow-up question. It appears that new sales in the Ladies' business are sluggish, but is it possible to recover in the second half of the year? Thank you.

Naito [M]: I will let Honda reply here.

Honda [A]: I will now answer this question.

First, we believe that recovery is possible. Our basic sales style is direct-response marketing, and autumn and winter are the peak season for us. We hope to generate a positive response with new products and promotions that will motivate customers to buy.

In March 2025, we launched a new product called JUSME Round Fit. In October, we also launched "JUSME one." We intend to meet the diverse needs of our customers by introducing these and other products on a regular basis.

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We will also continue to develop initiatives to create new value, such as Disney wigs, which will contribute to our business performance. This is our response.

Takasaki [M]: Thank you. We are checking the status of questions now. Please wait.

If you are preparing a question, may I ask you to send a message saying that you have a question first, and then send your question afterwards? Your cooperation would be greatly appreciated.

Participant [Q]: Okay, then, I have a follow-up question. It asks about the acquisition of new business areas, which seems to be included in the sales target, and whether there has been any progress. How about this one?

Naito [A]: I will answer this question as well.

We have been studying various projects in the area of new business fields, but unfortunately, we do not have anything to announce at this time.

However, we are in the process of examining a great number of projects, and we will continue to work on them so that we can reach the numerical targets set in our medium-term management plan and in the current fiscal year's plan.

As a rough guide, there is a difference between the sales targets for other areas for the current fiscal year and the figures for the previous year, but I hope you understand that a large part of this difference is due to the sales plan for this new area of business. This is our response.

Takasaki [M]: Thank you.

If there are no more questions, I would like to close the question-and-answer session now, but if you are preparing now, please leave a message saying that you are about to send it. We are continuing to take time to confirm this. We appreciate your patience.

Now that your questions have been answered, we will conclude the question-and-answer session. For further inquiries, please contact Senkoji at the IR Office of the Management Planning Division.

Finally, we would like to thank you for your participation. Please send us your comments and impressions of today's information session via our survey. Please click on the survey at the bottom of the screen, under the Explainer Materials tab, and click here to complete the survey.

We would appreciate your cooperation in filling out the questionnaire, which will be used as reference information for future IR activities.

This concludes the presentation of the second quarter financial results of ARTNATURE.

Thank you very much for your participation to the end.

[END]

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