



Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2018 [J-GAAP]

January 30, 2018

Name of listed company: ARTNATURE INC. Listed on: Tokyo Stock Exchange
 Securities code: 7823 URL: <http://www.artnature.co.jp/english/index.html>
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 Scheduled date of filing the quarterly financial report: February 14, 2018
 Scheduled date to start dividends distribution: -
 Supplementary quarterly materials prepared: No
 Explanation meeting for quarterly financial results: No

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated results for the third quarter ended December 31, 2017 (April 1, 2017 – December 31, 2017)

(1) Consolidated operating results

(Percentage figures show changes from the previous year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2017	27,153	(5.3)	1,857	(17.4)	1,987	(16.9)	848	(43.8)
Nine months ended December 31, 2016	28,667	(5.5)	2,248	(15.1)	2,391	(13.2)	1,510	0.0

Note: Comprehensive income: Nine months ended December 31, 2017: ¥757 million (-26.0%)
 Nine months ended December 31, 2016: ¥1,023 million (-30.3%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended December 31, 2017	25.61	25.53
Nine months ended December 31, 2016	45.58	45.49

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2017	40,081	23,906	59.5	728.00
As of March 31, 2017	41,729	24,432	58.5	736.09

(Reference) Equity capital: As of December 31, 2017: ¥23,829 million

As of March 31, 2017: ¥24,395 million

2. Dividends

	Dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Annual
Year ended March 31, 2017	Yen —	Yen 14.00	Yen —	Yen 16.00	Yen 30.00
Year ending March 31, 2018	—	14.00	—		
Year ending March 31, 2018 (Forecast)				14.00	28.00

Note: Revisions to the most recently announced dividend forecast during the period: No

The year-end dividend for the fiscal year ended March 31, 2017 includes a commemorative dividend of ¥2.00 to mark the Company's 50th anniversary.

3. Consolidated financial forecast for the fiscal year ending March 31, 2018 (April 1, 2017 – March 31, 2018)

(Percentage figures show changes from the previous year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	37,452	(3.9)	2,112	(25.0)	2,241	(23.3)	981	(29.6)	29.73

Note: Revisions to the most recently announced earnings forecasts during the period: Yes
For details of the revision, please refer to the “Announcement on the Revision of the Full-year Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2018” published on January 30, 2018 (Japanese only).

Notes:

(1) Significant changes to subsidiaries during the period (Transfers of specific subsidiaries with changes in the scope of consolidation): Yes
Excluded: 1 Company name: ARTNATURE (CAMBODIA) INC.
Note: For details, please refer to page 7 of the supplementary materials, “2. Quarterly consolidated financial statements and related notes,
(3) Notes on quarterly consolidated financial statements (Significant changes to subsidiaries during the period).”

(2) Application of specific accounting methods for preparing the quarterly consolidated financial statements: No

(3) Changes in accounting policies, accounting estimates and restatement of revisions
1) Changes in accounting policies due to revision of accounting standard, etc.: No
2) Changes in accounting policies other than 1): No
3) Changes in accounting estimates: No
4) Restatement of revisions: No

(4) Number of outstanding shares (common stock):

1) Number of shares issued and outstanding (including treasury shares)	As of December 31, 2017	34,393,200 shares	As of March 31, 2017	34,393,200 shares
2) Number of treasury shares	As of December 31, 2017	1,660,438 shares	As of March 31, 2017	1,251,738 shares
3) Average number of shares issued and outstanding in each period	Nine months ended December 31, 2017	33,126,147 shares	Nine months ended December 31, 2016	33,128,803 shares

* **This quarterly kessan tanshin document is outside the scope of audit procedures.**

* **Explanation of appropriate use of forecasts of financial results; other important items**

(Cautionary statement with regard to the forward-looking statements, etc.)

The forward-looking statements in this document, including forecasts, are based on information available at the time of disclosure and on certain assumptions deemed to be reasonable by the Company. Actual results may differ materially from forward-looking statements due to a number of factors. For more details about these assumptions and other conditions that form the basis of these forecasts, please refer to page 2 of the supplementary materials, “1. Analysis of operating results and financial position, (3) Qualitative information on consolidated financial forecasts.”

(Change in unit of presentation)

Previously, figures in the Company’s quarterly consolidated financial statements and other items were shown in thousand-yen units. However, effective from the first quarter and the cumulative first quarter of the fiscal year under review, figures have been shown in million-yen units. To facilitate comparison, figures for the third quarter and the cumulative third quarter of the previous fiscal year have been changed to million-yen units.

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1. Analysis of operating results and financial position

(1) Analysis of operating results

Operating results for the first nine months of fiscal 2018

In the first nine months of fiscal 2018 (April – December 2017), the Japanese economy continued to recover at a moderate pace, supported by an upturn in corporate earnings and a sustained improvement in the employment environment. However, the outlook remained uncertain amid instability in the political situation overseas.

Against this backdrop, the Group formulated a new medium-term management plan called the “ARTNATURE REBORN Plan,” aimed at delivering further growth as the Company celebrates its 50th anniversary. During the third quarter, the whole Group worked as one to implement initiatives based on the plan's four key areas of focus: customer satisfaction, systemic reform, personnel training and employee satisfaction.

The Company is forecasting lower sales and profits in fiscal 2018, which has been positioned as a period to build the foundations for an earnings recovery. Consequently, consolidated net sales in the third quarter of the fiscal year declined 5.3% year on year to ¥27,153 million, mainly reflecting weak sales in the men's business. The Company worked to control sales-related expenses and other costs, but that was insufficient to offset the drop in sales, resulting in operating income of ¥1,857 million (down 17.4% year on year). The Company reported ordinary income of ¥1,987 million (down 16.9%) and net income attributable to owners of the parent company of ¥848 million (down 43.8%).

< Men's business >

Sales in the men's business declined 7.0% year on year to ¥15,776 million. The business implemented a range of initiatives such as reinforcing the customer supervisor system to improve customer retention and strengthening the technical skills and customer service of sales staff to increase customer satisfaction. However, these measures were insufficient to offset lower sales from both new customers and repeat customers.

< Ladies' business >

Sales in the ladies business declined 3.5% year on year to ¥8,396 million. The business implemented various initiatives, such as efficiently holding trial fitting events, enhancing the skills, customer service and product proposal capabilities of sales staff, and building systems to create lasting long-term relationships with customers. However, sales were mainly affected by sluggish orders at trial fitting events.

< Ladies' ready-made wigs business >

Sales in the JULIA OLGER business, which sells ladies' ready-made wigs, declined 10.6% year on year to ¥2,179 million due to weak sales from repeat customers at existing stores, despite various initiatives such as highly targeted sales promotions at each salon and efforts to improve the skills, customer service and product proposal capabilities of sales staff.

(2) Analysis of financial position

Assets, liabilities and net assets

(Assets)

As of the end of the third quarter, total assets were ¥40,081 million, a decline of ¥1,648 million from the end of the previous fiscal year. Current assets decreased ¥547 million, and non-current assets decreased ¥1,101 million mainly due to the sales of subsidiary shares.

(Liabilities)

As of the end of the third quarter, liabilities totaled ¥16,174 million, a decline of ¥1,121 million from the end of the previous fiscal year. That mainly reflected a drop of ¥1,058 million in current liabilities due to declines in accounts payable – other, income taxes payable and provision for bonuses.

(Net Assets)

As of the end of the third quarter, net assets were ¥23,906 million, a decline of ¥526 million from the end of the previous fiscal year. This reflected purchase of treasury shares and decreases in retained earnings and foreign currency translation adjustment.

(3) Qualitative information on consolidated financial forecasts

The Company has revised its consolidated forecasts for the fiscal year ending March 31, 2018 on January 30, 2018. For details of the revision, please refer to the “Announcement on the Revision of the Full-year Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2018” published on the same day (Japanese only).

2. Quarterly consolidated financial statements and related notes

(1) Quarterly consolidated balance sheets

	(Millions of yen)	
	As of March 31, 2017	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	15,482	15,050
Notes and accounts receivable - trade	—	2,851
Accounts receivable – trade	2,770	—
Securities	144	136
Merchandise and finished goods	1,726	1,632
Work in process	100	98
Raw materials and supplies	1,691	1,596
Others	1,516	1,519
Allowance for doubtful accounts	(1)	(1)
Total current assets	23,431	22,884
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,236	5,615
Others, net	4,106	3,992
Total property, plant and equipment	10,342	9,608
Intangible assets		
Others	1,081	863
Total intangible assets	1,081	863
Investments and other assets		
Others	6,938	6,781
Allowance for doubtful accounts	(64)	(56)
Total investments and other assets	6,873	6,725
Total non-current assets	18,298	17,197
Total assets	41,729	40,081

(Millions of yen)

	As of March 31, 2017	As of December 31, 2017
Liabilities		
Current liabilities		
Accounts payable – trade	235	305
Current portion of long-term loans payable	401	400
Accounts payable – other	1,880	1,218
Income taxes payable	740	7
Advances received	4,529	5,226
Provision for bonuses	980	422
Provision for directors' bonuses	113	112
Provision for product warranties	44	39
Provision for point card certificates	92	96
Others	1,042	1,173
Total current liabilities	10,062	9,003
Non-current liabilities		
Long-term loans payable	799	498
Provision for directors' retirement benefits	1,664	—
Net defined benefit liability	3,313	3,497
Asset retirement obligations	1,265	1,309
Others	192	1,864
Total non-current liabilities	7,234	7,171
Total liabilities	17,296	16,174
Net assets		
Shareholders' equity		
Capital stock	3,667	3,667
Capital surplus	3,557	3,558
Retained earnings	17,657	17,511
Treasury shares	(494)	(823)
Total shareholders' equity	24,387	23,913
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(10)	17
Foreign currency translation adjustment	207	49
Remeasurements of defined benefit plans	(189)	(150)
Total accumulated other comprehensive income	7	(83)
Subscription rights to shares	24	63
Non-controlling interests	12	13
Total net assets	24,432	23,906
Total liabilities and net assets	41,729	40,081

(2) Quarterly consolidated statements of income and comprehensive income
(Quarterly consolidated statements of income)

	(Millions of yen)	
	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net sales	28,667	27,153
Cost of sales	8,656	8,654
Gross profit	20,010	18,498
Selling, general and administrative expenses	17,761	16,641
Operating income	2,248	1,857
Non-operating income		
Interest income	87	56
Foreign exchange gains	74	35
Insurance return	—	58
Others	64	42
Total non-operating income	226	192
Non-operating expenses		
Interest expenses	7	5
Guarantee commission	41	40
Others	35	17
Total non-operating expenses	84	63
Ordinary income	2,391	1,987
Extraordinary income		
Gain on sales of non-current assets	0	—
Total extraordinary income	0	—
Extraordinary losses		
Loss on retirement of non-current assets	43	0
Impairment loss	14	695
Loss on sales of shares of subsidiaries and associates	—	96
Total extraordinary losses	58	792
Income before income taxes	2,333	1,194
Income taxes – current	666	142
Income taxes – deferred	156	203
Total income taxes	822	346
Net income	1,511	848
Net income attributable to non-controlling interests	1	0
Net income attributable to owners of the parent company	1,510	848

(Quarterly consolidated statements of comprehensive income)

	(Millions of yen)	
	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net income	1,511	848
Other comprehensive income		
Valuation difference on available-for-sale securities	(11)	27
Foreign currency translation adjustment	(522)	(158)
Remeasurements of defined benefit plans	46	39
Total other comprehensive income	(487)	(91)
Comprehensive income	1,023	757
(Comprehensive income attributable to)		
Owners of the parent company	1,023	756
Non-controlling interests	0	0

(3) Notes on quarterly consolidated financial statements

(Notes on the going concern assumption)

There is no related information.

(Notes on significant fluctuation in amounts of shareholders' equity)

There is no related information.

(Significant changes to subsidiaries during the period)

During the nine-month period of the fiscal year under review, ARTNATURE (CAMBODIA) INC., one of our specific subsidiaries, was excluded from the scope of consolidation because it did not fall under the category of specific subsidiaries after we sold all shares held in this company during the same period.