



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

October 30, 2017

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: November 14, 2017
 Scheduled date to start dividends distribution: December 1, 2017
 Supplementary quarterly materials prepared: No
 Explanation meeting for quarterly financial results: Yes (for institutional investors and analysts)

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

1. Consolidated results for the second quarter ended September 30, 2017 (April 1, 2017 – September 30, 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	%
Six months ended September 30, 2017	17,822	(4.7)	1,045	(7.4)	1,120	11.5	387	(38.5)
Six months ended September 30, 2016	18,711	(5.7)	1,129	(33.8)	1,004	(43.5)	629	(34.5)

Note: Comprehensive income: Six months ended September 30, 2017: ¥289 million (-30.4%)
 Six months ended September 30, 2016: ¥416 million (-59.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2017	11.69	11.65
Six months ended September 30, 2016	19.00	18.96

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2017	40,747	24,233	59.3	728.78
As of March 31, 2017	41,729	24,432	58.5	736.09

(Reference) Equity capital: As of September 30, 2017: ¥24,156 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	—	14.00	—	16.00	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	37,271	(4.3)	1,478	(47.5)	1,521	(48.0)	867	(37.8)	26.17

Note: Revisions to the most recently announced earnings forecasts during the period: No

Notes:

(1) Significant changes to subsidiaries during the period (Transfers of specific subsidiaries with changes in the scope of consolidation): No

(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 September 30, 2017	34,393,200 shares	As of March 31, 2017	34,393,200 shares
2) Number of treasury shares	As of September 30, 2017	1,246,538 shares	As of March 31, 2017	1,251,738 shares
3) Average number of shares issued and outstanding in each period	Six months ended September 30, 2017	33,143,005 shares	Six months ended September 30, 2016	33,125,726 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 3 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 second quarter and the cumulative second 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 six months of fiscal 2018

In the first six months of fiscal 2018 (April – September 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 continuing sluggish growth in consumer spending and 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 second 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 second quarter of the fiscal year declined 4.7% year on year to ¥17,822 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 ¥1,045 million (down 7.4% year on year). The Company reported ordinary income of ¥1,120 million (up 11.5%), mainly supported by forex factors, and net income attributable to owners of the parent company of ¥387 million (down 38.5%), largely due to the booking of impairment losses related to a consolidated subsidiary.

< Men’s business >

Sales in the men’s business declined 7.9% year on year to ¥10,318 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 0.7% year on year to ¥5,712 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 7.9% year on year to ¥1,284 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

1) Assets, liabilities and net assets

(Assets)

As of the end of the second quarter, total assets were ¥40,747 million, a decline of ¥982 million from the end of the previous fiscal year. Current assets decreased ¥355 million, and non-current assets decreased ¥627 million mainly due to the booking of impairment losses.

(Liabilities)

As of the end of the second quarter, liabilities totaled ¥16,513 million, a decline of ¥783 million from the end of the previous fiscal year. That mainly reflected a drop of ¥721 million in current liabilities due to declines in accounts payable – other and income taxes payable.

(Net Assets)

As of the end of the second quarter, net assets were ¥24,233 million, a decline of ¥199 million from the end of the previous fiscal year. This reflected decreases in retained earnings and foreign currency translation adjustment.

2) Cash flow position

As of the end of the second quarter, cash and cash equivalents (cash) totaled ¥15,552 million, an increase of ¥37 million compared with the end of the previous fiscal year. The Company’s cash flow position and factors behind changes in cash flows were as follows:

(Cash flows from operating activities)

Operating activities provided net cash of ¥1,497 million, compared with ¥1,423 million in the same period a year earlier. That mainly reflected income before income taxes of ¥445 million, depreciation of ¥600 million, impairment loss of ¥674 million, decrease in notes and accounts receivable – trade of ¥462 million, and other operating revenue of ¥1,340 million, versus decrease in provision for directors’ retirement benefits of ¥1,664 million, decrease in provision for bonuses of ¥134 million, and income taxes paid of ¥584 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥679 million, compared with ¥2,942 million in the same period a year earlier. That mainly reflected purchase of property, plant and equipment of ¥437 million and purchase of intangible assets of ¥224 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥748 million, compared with ¥702 million in the same period a year earlier. That mainly reflected repayments of long-term loans payable of ¥200 million, repayments of lease obligations of ¥18 million and dividends paid of ¥529 million.

(3) Qualitative information on consolidated financial forecasts

The Company has not revised its consolidated forecasts for fiscal 2018 announced on May 15, 2017.

2. Quarterly consolidated financial statements and related notes

(1) Quarterly consolidated balance sheets

	(Millions of yen)	
	As of March 31, 2017	As of September 30, 2017
Assets		
Current assets		
Cash and deposits	15,482	15,529
Notes and accounts receivable - trade	—	2,305
Accounts receivable – trade	2,770	—
Securities	144	135
Merchandise and finished goods	1,726	1,518
Work in process	100	109
Raw materials and supplies	1,691	1,700
Others	1,516	1,778
Allowance for doubtful accounts	(1)	(1)
Total current assets	23,431	23,076
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,236	5,689
Others, net	4,106	3,981
Total property, plant and equipment	10,342	9,670
Intangible assets		
Others	1,081	1,049
Total intangible assets	1,081	1,049
Investments and other assets		
Others	6,938	7,007
Allowance for doubtful accounts	(64)	(56)
Total investments and other assets	6,873	6,950
Total non-current assets	18,298	17,670
Total assets	41,729	40,747

(Millions of yen)

	As of March 31, 2017	As of September 30, 2017
Liabilities		
Current liabilities		
Accounts payable – trade	235	232
Current portion of long-term loans payable	401	400
Accounts payable – other	1,880	1,581
Income taxes payable	740	543
Advances received	4,529	4,621
Provision for bonuses	980	845
Provision for directors' bonuses	113	75
Provision for product warranties	44	41
Provision for point card certificates	92	96
Others	1,042	902
Total current liabilities	10,062	9,340
Non-current liabilities		
Long-term loans payable	799	598
Provision for directors' retirement benefits	1,664	—
Net defined benefit liability	3,313	3,414
Asset retirement obligations	1,265	1,298
Others	192	1,861
Total non-current liabilities	7,234	7,173
Total liabilities	17,296	16,513
Net assets		
Shareholders' equity		
Capital stock	3,667	3,667
Capital surplus	3,557	3,557
Retained earnings	17,657	17,514
Treasury shares	(494)	(492)
Total shareholders' equity	24,387	24,246
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(10)	10
Foreign currency translation adjustment	207	63
Remeasurements of defined benefit plans	(189)	(163)
Total accumulated other comprehensive income	7	(89)
Subscription rights to shares	24	63
Non-controlling interests	12	13
Total net assets	24,432	24,233
Total liabilities and net assets	41,729	40,747

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

	(Millions of yen)	
	Six months ended September 30, 2016	Six months ended September 30, 2017
Net sales	18,711	17,822
Cost of sales	5,753	5,696
Gross profit	12,957	12,126
Selling, general and administrative expenses	11,828	11,080
Operating income	1,129	1,045
Non-operating income		
Interest income	54	49
Foreign exchange gains	—	27
Others	45	36
Total non-operating income	100	113
Non-operating expenses		
Interest expenses	5	3
Foreign exchange losses	166	—
Guarantee commission	24	23
Others	28	11
Total non-operating expenses	224	38
Ordinary income	1,004	1,120
Extraordinary income		
Gain on sales of non-current assets	0	—
Total extraordinary income	0	—
Extraordinary losses		
Loss on retirement of non-current assets	28	0
Impairment loss	14	674
Total extraordinary losses	43	674
Income before income taxes	961	445
Income taxes – current	287	444
Income taxes – deferred	44	(386)
Total income taxes	332	57
Net income	629	387
Net income attributable to non-controlling interests	0	0
Net income attributable to owners of the parent company	629	387

(Quarterly consolidated statements of comprehensive income)

	(Millions of yen)	
	Six months ended September 30, 2016	Six months ended September 30, 2017
Net income	629	387
Other comprehensive income		
Valuation difference on available-for-sale securities	(2)	20
Foreign currency translation adjustment	(242)	(144)
Remeasurements of defined benefit plans	31	26
Total other comprehensive income	(213)	(97)
Comprehensive income	416	289
(Comprehensive income attributable to)		
Owners of the parent company	417	289
Non-controlling interests	(0)	0

(3) Quarterly consolidated statements of cash flows

(Millions of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Cash flows from operating activities		
Income before income taxes	961	445
Depreciation	607	600
Impairment loss	14	674
Increase (decrease) in allowance for doubtful accounts	(2)	(7)
Increase (decrease) in provision for bonuses	40	(134)
Increase (decrease) in provision for directors' bonuses	(75)	(38)
Increase (decrease) in provision for product warranties	5	(3)
Increase (decrease) in provision for point card certificates	7	4
Increase (decrease) in provision for directors' retirement benefits	(97)	(1,664)
Increase (decrease) in net defined benefit liability	94	139
Interest income	(54)	(49)
Interest expenses	5	3
Loss on retirement of non-current assets	28	0
Loss (gain) on sales of non-current assets	(0)	—
Decrease (increase) in notes and accounts receivable – trade	575	462
Decrease (increase) in inventories	94	167
Increase (decrease) in notes and accounts payable – trade	(59)	(1)
Increase (decrease) in advances received	(2)	91
Others	(237)	1,340
Subtotal	1,906	2,031
Interest income received	64	53
Interest expenses paid	(4)	(3)
Income taxes paid	(543)	(584)
Net cash provided by (used in) operating activities	1,423	1,497
Cash flows from investing activities		
Payments into time deposits	(101)	(110)
Proceeds from withdrawal of time deposits	—	110
Purchase of property, plant and equipment	(519)	(437)
Proceeds from sales of property, plant and equipment	0	—
Purchase of intangible assets	(298)	(224)
Purchase of investment securities	(2,000)	—
Collection of long-term loans receivable	0	0
Payments for lease and guarantee deposits	(27)	(9)
Proceeds from collection of lease and guarantee deposits	30	31
Others	(26)	(39)
Net cash provided by (used in) investing activities	(2,942)	(679)
Cash flows from financing activities		
Repayments of long-term loans payable	(200)	(200)
Repayments of lease obligations	(38)	(18)
Cash dividends paid	(462)	(529)
Net cash provided by (used in) financing activities	(702)	(748)
Effect of exchange rate change on cash and cash equivalents	(143)	(32)
Net increase (decrease) in cash and cash equivalents	(2,364)	37
Cash and cash equivalents at beginning of period	16,072	15,515
Cash and cash equivalents at end of period	13,707	15,552

(4) 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.

(Material subsequent events)

(Sale of shares of a significant subsidiary)

At a meeting of the Board of Directors on October 30, 2017, the Company approved a resolution to transfer all its shares in consolidated subsidiary ARTNATURE (CAMBODIA) INC. ("ANKH") to MOONWISH INTERNATIONAL CO., LIMITED. Details are as follows.

As a result of the share transfer, ANKH is no longer a consolidated subsidiary of the Company.

(1) Reason for transfer of shares

The Company established ANKH in January 2014 to manufacture custom-made wigs and other ARTNATURE products. However, the Company decided to sell the ANKH business after fundamentally overhauling its production system to reinforce the earnings structure.

(2) Name of recipient of shares

MOONWISH INTERNATIONAL CO., LIMITED

(3) Date of share transfer

November 30, 2017 (planned)

(4) Name of subsidiary to be transferred, description of business and trading relationship with the Company

1) Name: ARTNATURE (CAMBODIA) INC.

2) Business: Manufacture of wigs

3) Trading relationship: Outsourced production of ARTNATURE products, etc.

(5) Number of shares to be transferred, transfer price, ownership ratio after transfer, financial impact of transfer

1) Number of shares to be transferred: 1,600 (number of voting rights: 1,600, ratio of voting rights: 100%)

2) Transfer price: The transfer price has been decided after consultation with the buyer, which is not part of the ARTNATURE Group. However, due to a confidentiality agreement signed with the buyer, the transfer price cannot be disclosed.

3) Number of shares after transfer: – (number of voting rights: – , ratio of voting rights: –%)

4) Financial impact of transfer: The financial impact of the share transfer had not been determined as of the date of this quarterly financial report.