

November 9th, 2017



Presentation Material

1H FY2018 (April 1st, 2017 to September 30th, 2017)

ARTNATURE INC.

Overview of 1H FY2018 Results & Financial Forecast

Net Sales & Operating Income

(¥ million)

	1H FY2017 (Results)	1H FY2018 (Results)	YoY Change	Year-end (Plan)	Progress rate
Net Sales	18,711	17,822	(4.7%)	37,271	47.8%
Operating Income	1,129	1,045	(7.4%)	1,478	70.8%

Breakdown of Net Sales

(¥ million)

	1H FY2017 (Results)	1H FY2018 (Results)	YoY Change	Year-end (Plan)	Progress rate
Men's Business	11,200	10,318	(7.9%)	21,440	48.1%
Ladies' Business	5,752	5,712	(0.7%)	11,451	49.9%
JULLIA OLGER (Lady's Ready-made wig)	1,395	1,284	(7.9%)	3,601	35.7%

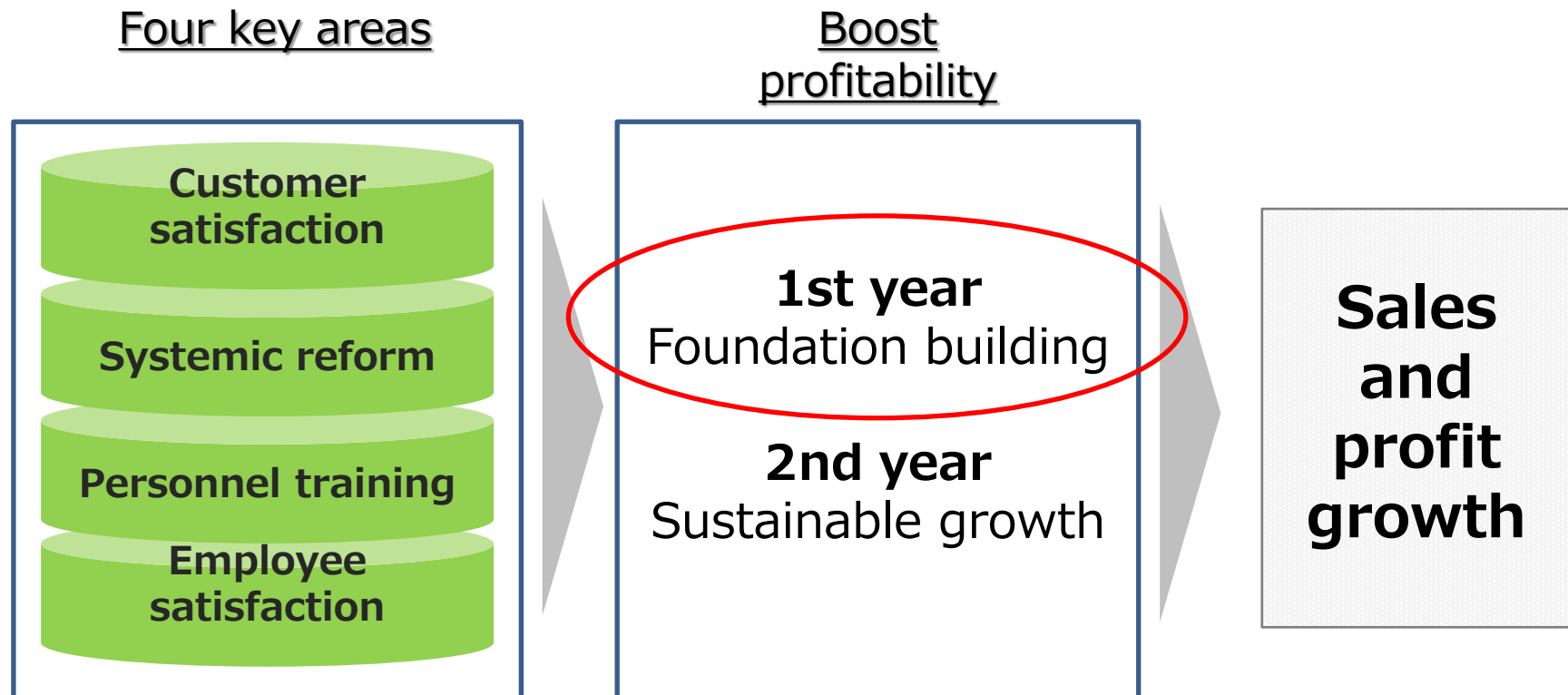
■ Men's Business, ● Ladies' Business, ▲ JULLIA OLGIER, ◆ Other

【New products】

- March, new release of hair addition system "4Da"(Four D alpha) .
- March, new release of custom-made wig "Style LaLa".
- September, new release of custom-made wig "Pufeel".
- September, new release of hair addition system "V50".
- ▲ October, new release of ready-made wig "PURE CIEL".
- ◆ October, introducing a new product line for men's skincare "LABMO".
- ◆ October, new release of haircare products.
"LABOMO/art black" for men, and "LABOMO/silky soft" for ladies'.

【New salon openings】

- ▲ April, first in-hospital salon Hair salon ANCS opens at Toranomom Hospital.
- June, Ladies' salon at JR Nagoya-ekimae opens.



Updates for Management Plans of FY2018

Systemic reform of sales infrastructure

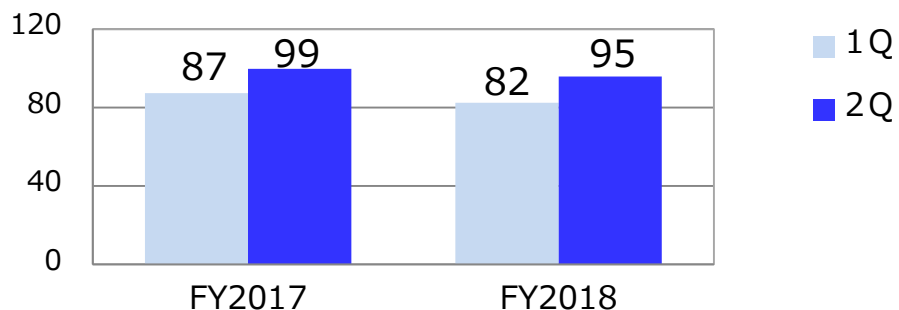
- Applying the strategies gained by the long history of Artnature to the current needs.

Transition to a high earning structure

- Announcement of disposal of subsidiary ARTNATURE CAMBODIA INC. (Oct.30)
Improvement of cost structure (cost reduction)

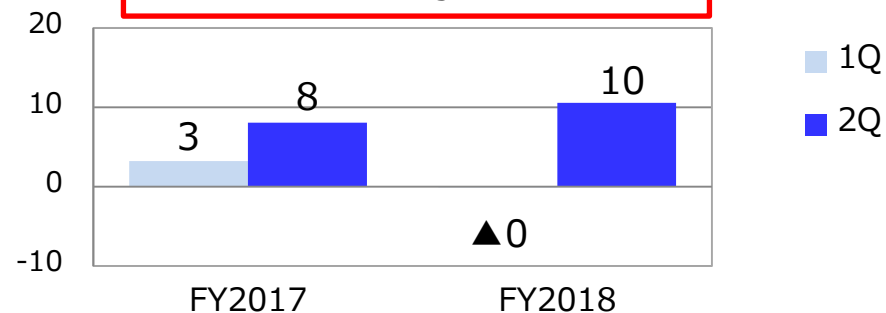
First Half Sales (¥ billion)

Proceeding according to plan



First Half Operating Profit (¥ billion)

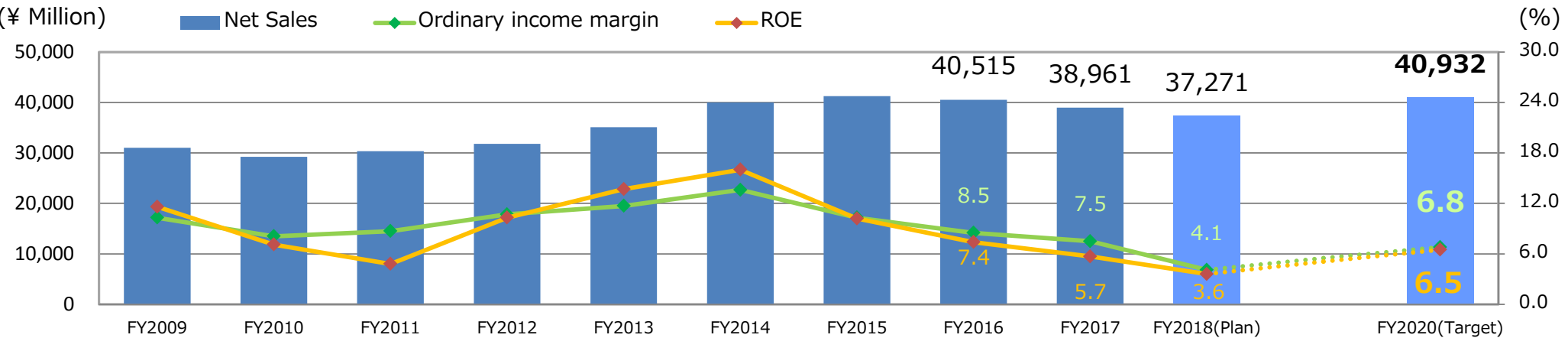
Exceeding than planned due to controlling costs



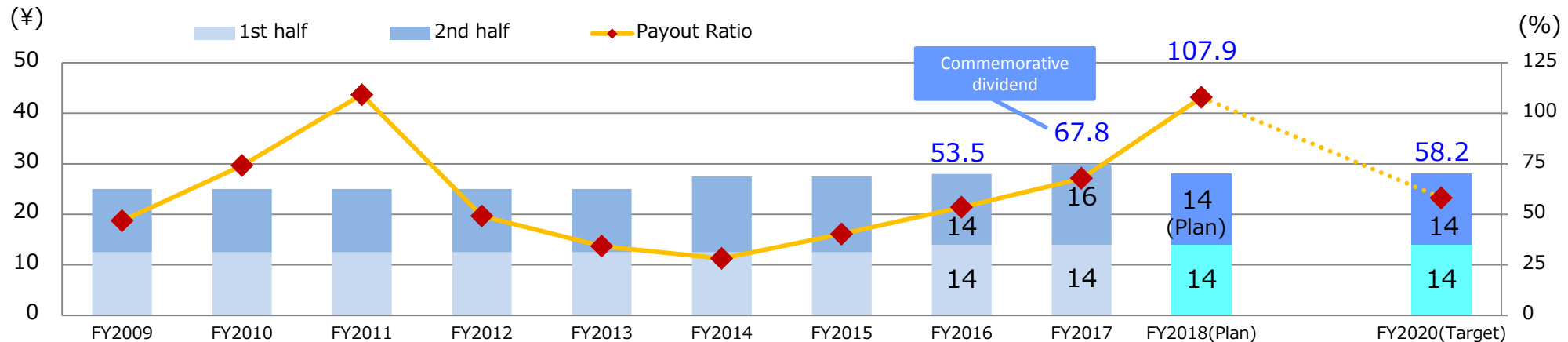
Initiatives for the second half

- ① Continuing to strengthen the business infrastructure for the FY2019.
- ② Launching innovative products and promotions to satisfy customer needs.
- ③ Improving operation efficiency to strengthen profit structure.
- ④ Raising basic personnel skills.
- ⑤ Reviewing personnel assessment and education system.

FY 2020 (Target) Net Sales:¥ 409 billion Ordinary Income Margin: 6.8% ROE: 6.5%



Maintain Stable and Continuous Dividends



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

**Financial Results 1H FY2018
&
Financial Forecast FY2018**

1H FY2018: Financial Highlights



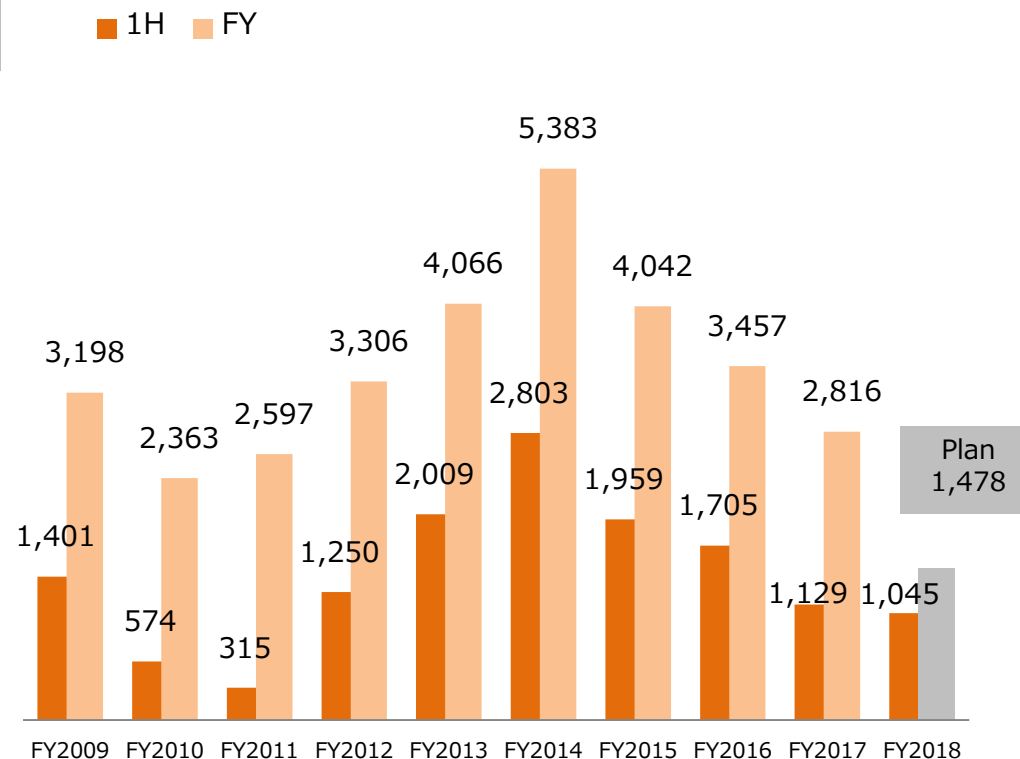
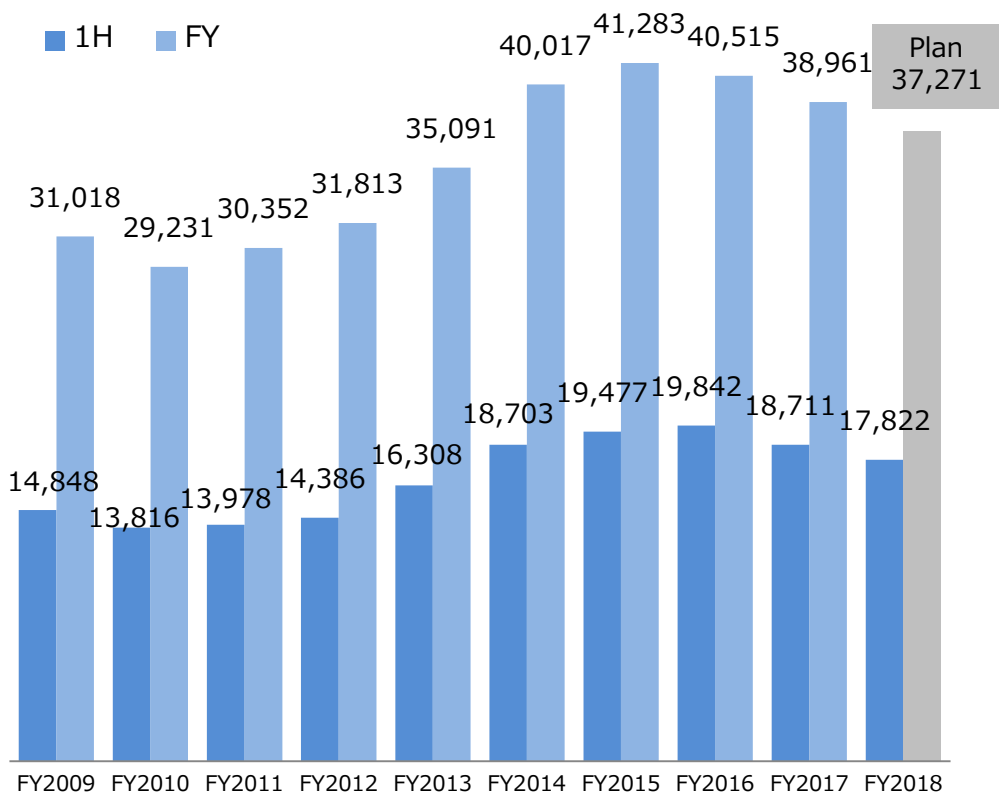
(¥ million)

	1H FY2017 (Results)	1H FY2018 (Results)	FY2018 (Plan)	Major Factors on YoY Change
Net Sales	18,711	17,822	37,271	Net Sales : Down 4.7% Men's Business : Down 7.9% Ladies' Business : Down 0.7% JULLIA OLGER : Down 7.9% Cost of Sales Ratio : Up 1.2Pt Product Cost : Up 0.4pt HR : Up 0.8pt SG&A Expenses Ratio : Down 6.3% Ad Spending : Down 10.1% HR : Down 5.9% Other : Down 27.6% CAPEX Store facilities : ¥431 million System related : ¥113 million
Men's Business	11,200	10,318	21,440	
Ladies' Business	5,752	5,712	11,451	
JULLIA OLGER	1,395	1,284	3,601	
Others	363	506	779	
Cost of Sales	5,753	5,696	11,923	
Gross Profit	12,957	12,126	25,348	
SG&A Expenses	11,828	11,080	23,869	
Ad Spending	3,205	2,880	5,920	
HR	2,951	2,777	5,820	
Operating Income	1,129	1,045	1,478	
Ordinary Income	1,004	1,120	1,521	
Net Income	629	387	867	
Depreciation	571	526	1,203	
CAPEX	671	635	2,106	

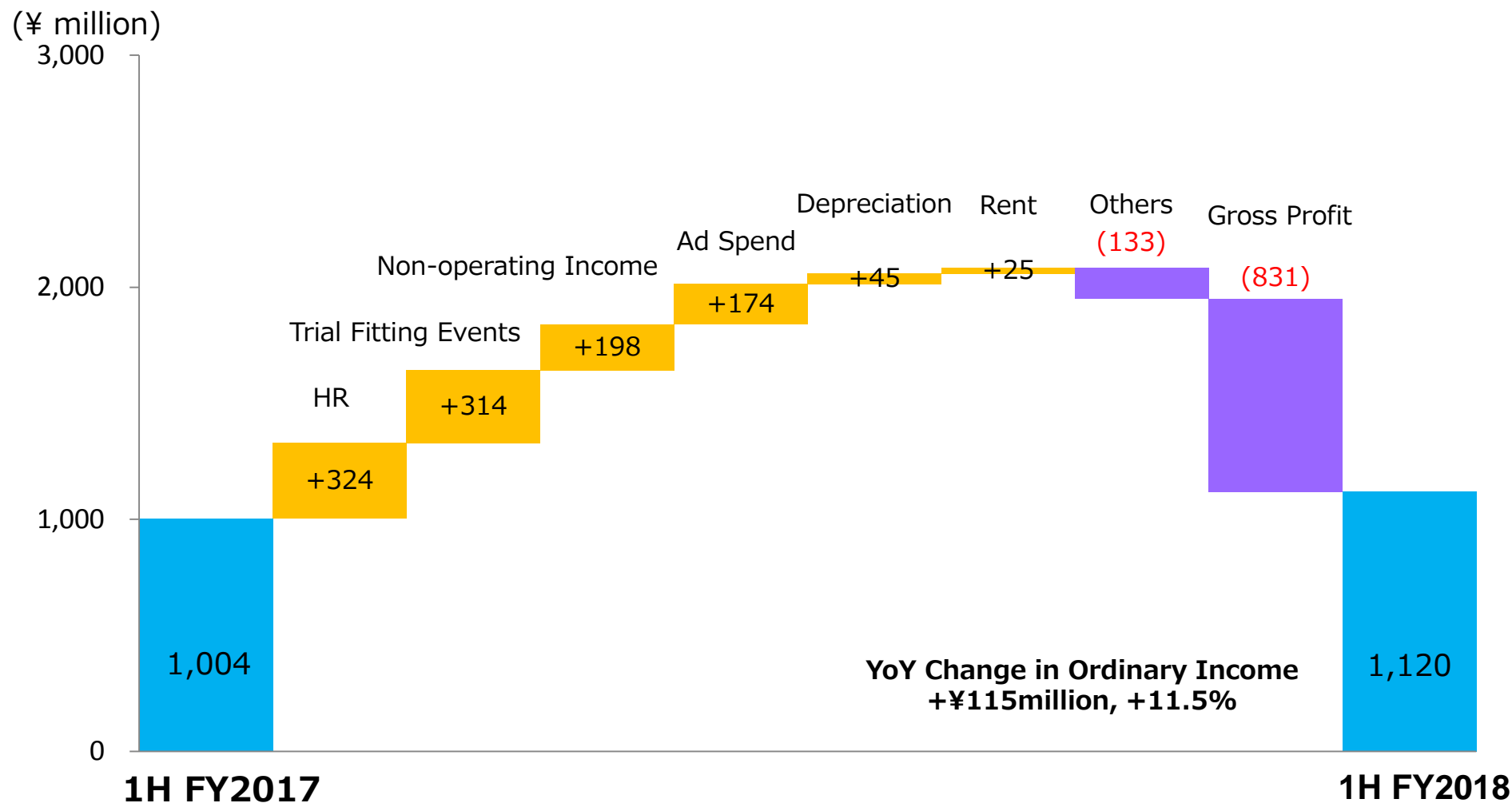
Trends of Net Sales and Operating Income

Net Sales (¥ million)

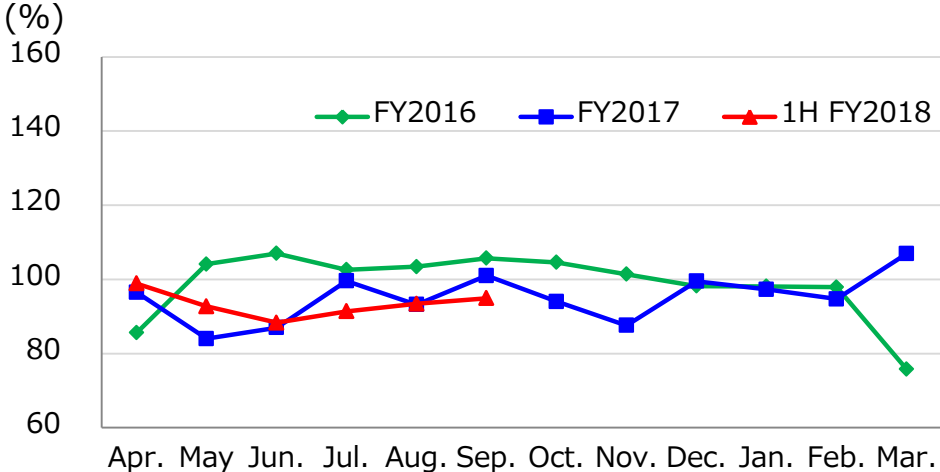
Operating Income (¥ million)



1H FY2018: Analysis of SG&A Expenses



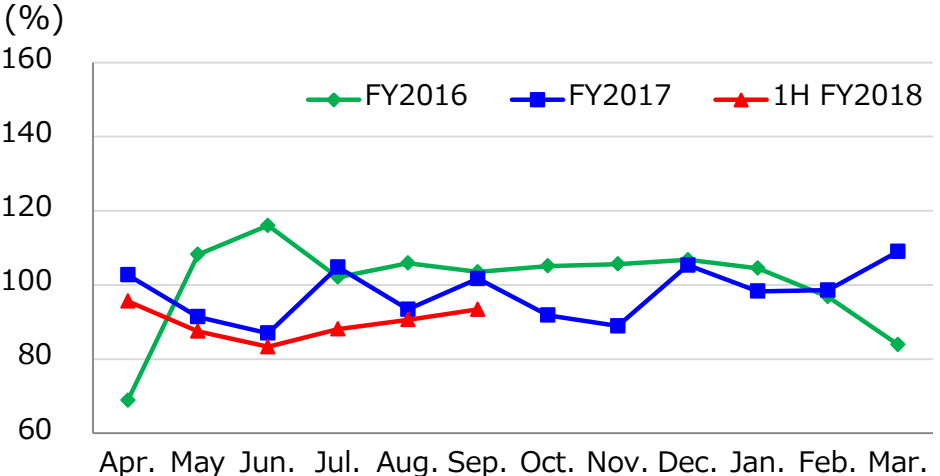
Total Sales of Major Products



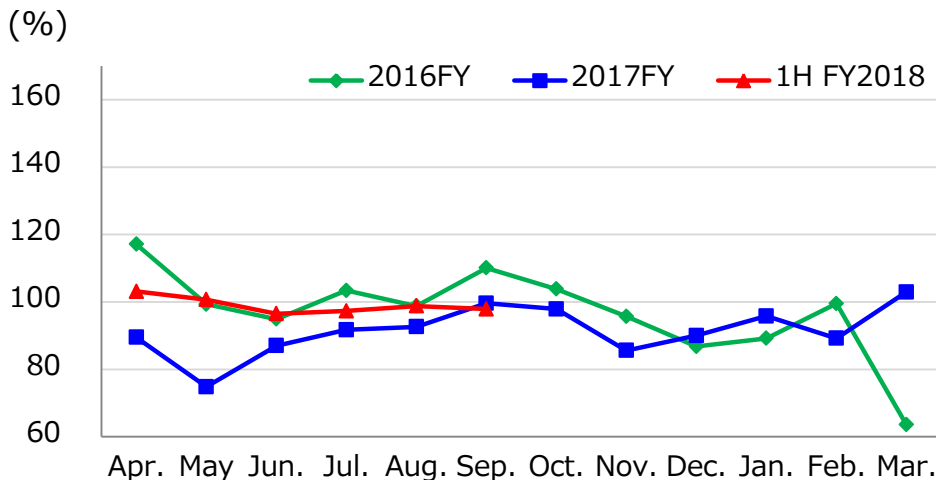
Total Sales of Major Products (Half-year)

	Total	Men	Ladies
1H FY2016	101.4	100.3	103.3
1H FY2017	93.5	96.6	88.7
1H FY2018	93.2	89.7	99.0

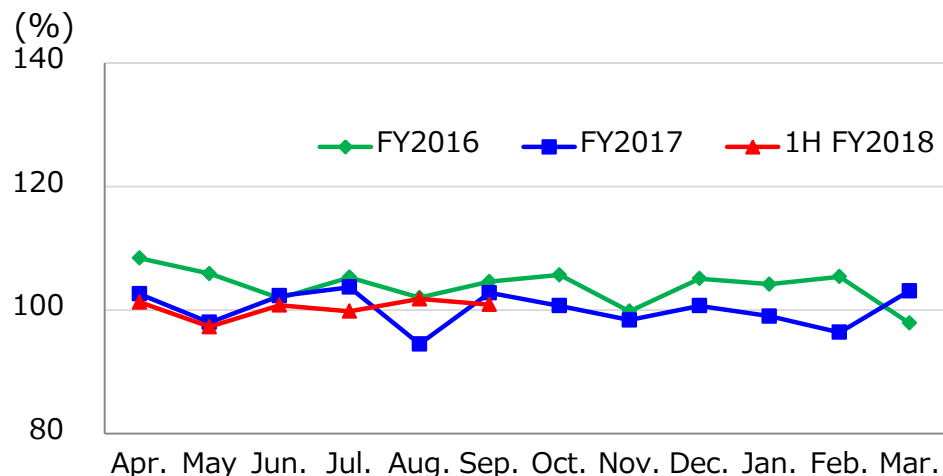
Sales of Major Products (Men)



Sales of Major Products (Ladies)



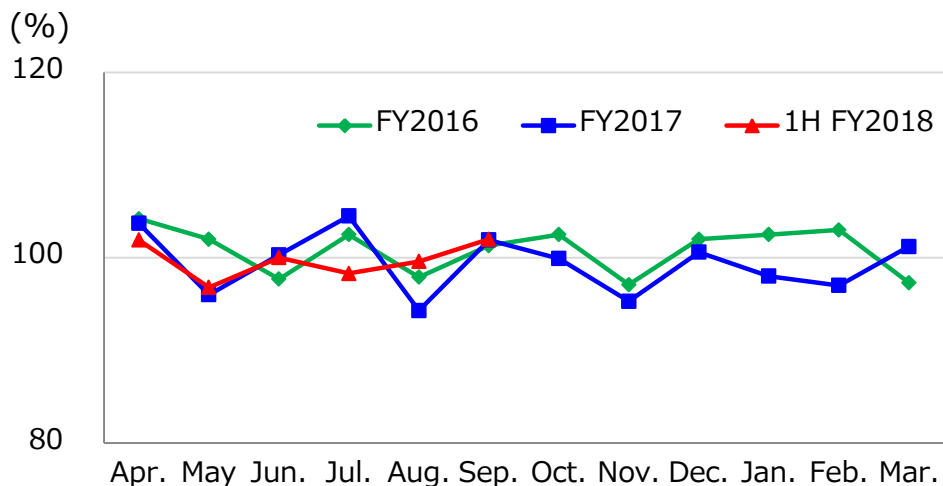
Customer Traffic (Total)



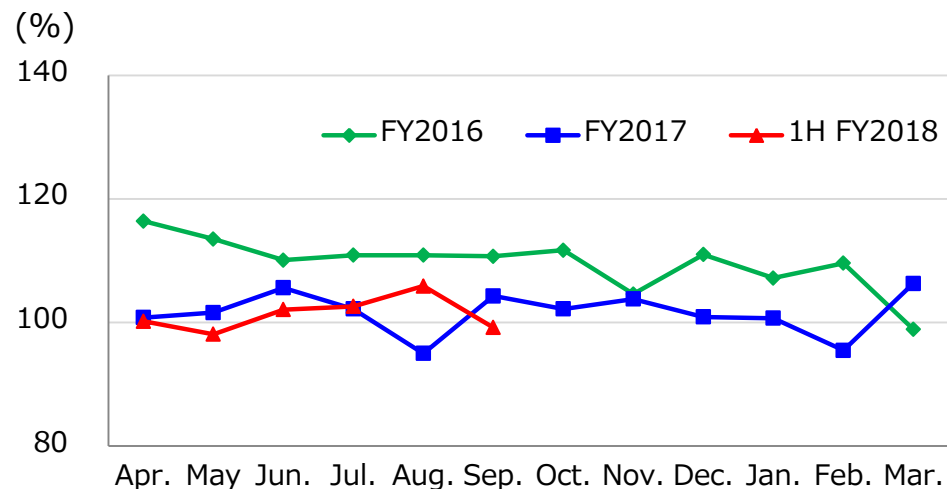
Customer Traffic (Total, Half-year)

	Total	Men	Ladies
1H FY2016	104.6	100.8	112.1
1H FY2017	100.6	100.0	101.6
1H FY2018	100.3	99.7	101.2

Customer Traffic (Men)



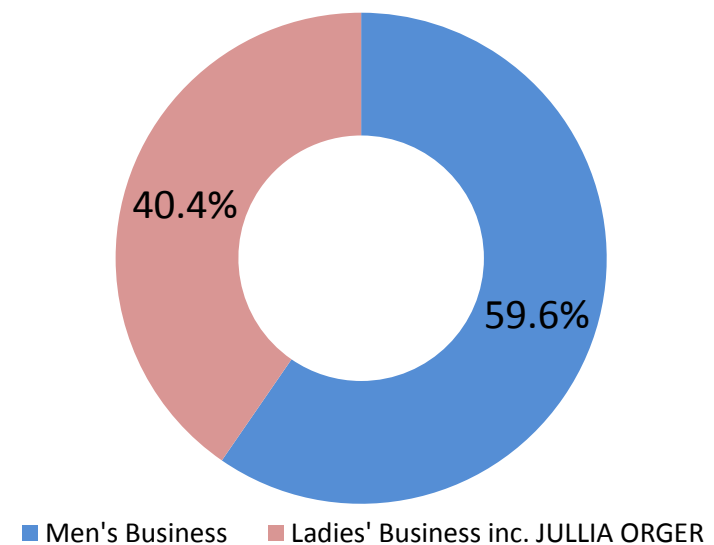
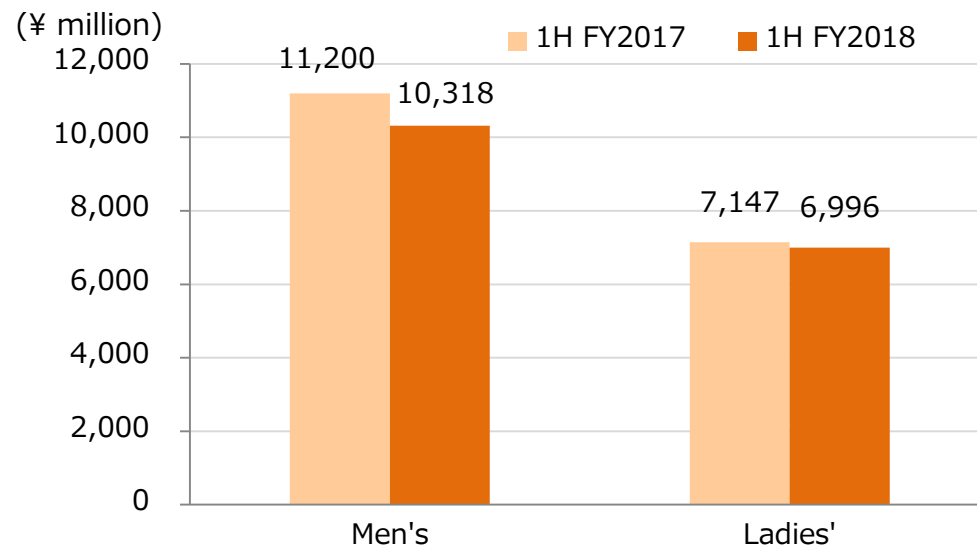
Sales of Major Products (Ladies)



1H FY2018: Breakdown of Sales by Segment

(¥ million)

	1H FY2017 (Results)	1H FY2018 (Results)	YoY Change	Year-end (Plan)	Progress rate
Net Sales	18,711	17,822	(4.7%)	37,271	47.8%
Men's Business	11,200	10,318	(7.9%)	21,440	48.1%
Ladies' Business	5,752	5,712	(0.7%)	11,451	49.9%
JULLIA OLGIER	1,395	1,284	(7.9%)	3,601	35.7%
Others	363	506	+39.6%	779	65.1%



1H FY2018: Breakdown of Sales Forecast by Product and Services (Non-consolidated Basis)



(¥ million)

Net Sales		1H FY2017	1H FY2018	YoY Change	
Custom-made Wigs	New Customers	2,027	1,525	(502)	(24.8%)
	Repeat Business	9,155	8,420	(734)	(8.0%)
		11,182	9,945	(1,237)	(11.1%)
Hair Addition Products	New Customers	715	940	+225	+31.5%
	Repeat Business	1,118	1,250	+131	+11.8%
		1,833	2,190	+357	+19.5%
Hair Growth Services	New Customers	80	68	(12)	(15.4%)
	Repeat Business	505	470	(34)	(6.9%)
		586	538	(47)	(8.1%)
Styling Services		2,650	2,673	+23	+0.9%
JULLIA OLGIER		1,395	1,284	(110)	(7.9%)
Others		954	1,088	+134	+14.1%
All Products & Services	New Customers	2,823	2,533	(289)	(10.3%)
	Repeat Business	14,129	13,497	(632)	(4.5%)
	JULLIA OLGIER	1,395	1,284	(110)	(7.9%)
	Others	254	406	+151	+59.5%
	Total	18,603	17,722	(880)	(4.7%)

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

1H FY2018: Breakdown of Sales by Product & Services in Men's Business (Non-consolidated Basis)

(¥ million)

Net Sales		1H FY2017	1H FY2018	YoY Change	
Custom-made Wigs	New Customers	488	380	(108)	(22.1%)
	Repeat Business	6,257	5,643	(613)	(9.8%)
		6,745	6,024	(721)	(10.7%)
Hair Addition Products	New Customers	589	552	(36)	(6.2%)
	Repeat Business	812	725	(86)	(10.7%)
		1,401	1,278	(123)	(8.8%)
Hair Growth Services	New Customers	73	60	(12)	(17.1%)
	Repeat Business	333	312	(21)	(6.5%)
		407	372	(34)	(8.4%)
Styling Services		2,149	2,148	(1)	(0.1%)
Others		496	494	(2)	(0.5%)
All Products & Services	New Customers	1,150	993	(156)	(13.6%)
	Repeat Business	10,049	9,324	(725)	(7.2%)
	Total	11,200	10,318	(882)	(7.9%)

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

Men's Business

	Sales	Progress	Initiatives for Second Half
New Customers	Enhance customer service and product proposal capabilities	Introduced different levels of role-play trainings to sales staff according to their skills	Attract new customers by promoting sales with new Autumn products
	Establish a stronger sales district structure	Reviewed and overcame weaknesses according to each sales district	
	Improve customer retention	Implemented various aftercare	
Repeat Customers	Increase customer satisfaction by reinforcing customer supervisor system	Implemented various services as a thanks to celebrating the 50 year's anniversary	Focus on performance recovery by continuing to strengthen the business structure
	Enhance product proposal capabilities based on a appropriate sales cycle	Revised the current sales implements in regards to customer satisfaction	
	Enhance technical and service skills for a higher customer satisfaction	Implemented staff trainings to enhance service skills	Personnel training: Boost the technical and customer service skills of sales staff
	Focus on effective salon management	Headquarters heightened staff's awareness for costs and profits	
			Costs and profits: Headquarters will take the lead with implements and continue to focus on profits

Key product

- ◆ New hair addition system "V50"
Features : A 50 year anniversary product, with more wider options for hair addition from the hair line to the hair whirl. Complimentary hair addition experience of 500 hair for new customers.



V50

1H FY2018 : Breakdown of Sales Forecast by Products and Services Men's Business (Non-consolidated Basis)



(¥ million)

	FY2017		FY2018				
	1H (Results)	Year- end(Results)	1H (Results)	YoY Change	Year- end(Plan)	YoY Change	Progress rate
Custom-made Wigs	6,745	14,320	6,024	(10.7%)	12,732	(11.1%)	47.3%
Hair Addition Products	1,401	2,720	1,278	(8.8%)	2,760	+1.4%	46.3%
Hair growth Services	407	785	372	(8.4%)	784	(0.1%)	47.6%
Styling Services	2,149	4,221	2,148	(0.1%)	4,211	(0.2%)	51.0%
Others	496	955	494	(0.5%)	951	(0.4%)	51.9%
Total	11,200	23,003	10,318	(7.9%)	21,440	(6.8%)	48.1%

1H FY2018 : Breakdown of Sales Forecast by Products and Services

Ladies' Business (Non-consolidated Basis)



(¥ million)

Net Sales		1H FY2017	1H FY2018	YoY Change	
Custom-made Wigs	New Customers	1,539	1,145	(394)	(25.6%)
	Repeat Business	2,898	2,776	(121)	(4.2%)
		4,437	3,921	(515)	(11.6%)
Hair addition Products	New Customers	126	387	+261	+207.5%
	Repeat Business	306	524	+218	+71.4%
		432	912	+480	+111.1%
Hair Growth Services	New Customers	7	7	+0	+2.7%
	Repeat Business	172	158	(13)	(7.8%)
		179	165	(13)	(7.3%)
Styling Services		501	525	+24	+4.9%
Others		1,597	1,472	(125)	(7.8%)
All Products & Services	New customers	1,672	1,539	(132)	(7.9%)
	Repeat business	4,079	4,173	+93	+2.3%
	JULLIA OLGER	1,395	1,284	(110)	(7.9%)
	Total	7,147	6,997	(149)	(2.1%)

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

Ladies' Business

	Sales	Progress	Initiatives for Second Half
New Customers	Adapt to the changing needs of customers, and enhance technical and product proposal skills	Implemented a wider range of trainings for staff, and introduced new services to customers	<p>Attract new customers by promoting sales with new Autumn products</p> <p>Initiatives: Continue to build a long term relationship with customers</p> <p>Personnel training: Strengthen the basic required skills for staff and introduce new techniques</p> <p>Costs and profits: Headquarters will take the lead with implements and continue to focus on profits</p>
	Plan effective fitting trial events according to past data	Innovated the image for fitting trails. Cost reduction was successful by selecting the number of events held, while attracting customers still remains to be a challenge	
Repeat Customers	Establish a long-term relationship with customers	Introduced various projects to built a stronger connection with customers	
	Strengthen technical skills, customer service, and product proposal capabilities	Introduced new skills while sharing successful examples	
	Focus on effective salon management	Headquarters heightened staff's awareness for costs and profits	

Key Product

◆ Custom-made wig "Pufeel"

Features : The lightest custom-made wig made in our history. Our technique realizes a natural volume with three levels of base net to choose from.



パフイール Pufeel

JULLIA OLGER Business

	Sales Implements	Progress	Initiatives for Second Half
New Customers	Offer sales promotions tailored to each salon	Organized sales promotions well suited to the features of each commercial facility	<p>Attract new customers by promoting sales with new Autumn products</p> <p>Initiatives: Effectively use customer follow up support system Strengthen partnership with commercial facilities and actively take part in their sales events</p>
	Increase repeat customers by innovating customer follow up support	Introduced customer follow up support system	
	Strengthen technical skills, customer service, and product proposal capabilities	Offered different levels of technical trainings depending on the capability of staff	
	Strategically open new salons and examine unprofitable ones	Examined openings and closing of salons	
Repeat Customers	Increase broadcast for TV shopping and seek alternative studios	Positive outcome at TV Shopping program 「Shop Channel」	<p>Personnel training: Strengthen the required skills according to each staff</p> <p>Costs and profits: Hold effective fitting trials</p>
	Hold effective fitting trial events	Fitting trial events were selectively held as planned, but the sales profit per each event remains a challenge	
	Promote medical wigs and increase its sales channels	First in-hospital salon opens. Promotion is on way	

Key product

◆ Ready-made wig "PURE CIEL"
 Features : Palm sized small wig. Promising volume at hair partition.
 Promoting wig fair to encourage customers to visit the salons.



PURE CIEL
 ピュアシエル

1H FY2018 : Breakdown of Sales Forecast by Products and Services Ladies' Business (Non-consolidated Basis)



(¥ million)

	FY2017		FY2018				
	1H (Results)	Year-end (Results)	1H (Results)	YoY Change	Year-end (Plan)	YoY Change	Progress rate
Custom-made Wigs	4,437	8,617	3,921	(11.6%)	8,145	(5.5%)	48.1%
Hair addition Products	432	1,351	912	111.1%	1,453	+7.5%	62.8%
Hair growth Services	179	349	165	(7.3%)	350	+0.3%	47.3%
Styling services	501	1,009	525	+4.9%	1,077	+6.7%	48.8%
JULLIA OLGER	1,395	3,359	1,284	(7.9%)	3,601	+7.2%	35.7%
Others	202	398	187	(7.4%)	425	+6.6%	44.1%
Total	7,147	15,086	6,997	(2.1%)	15,052	(0.2%)	46.5%

FY2018 : Breakdown of Sales Forecast by Products and Services (Non-consolidated Basis)



(¥ million)

	FY2017		FY2018				
	1H (Results)	Year-end (Results)	1H (Results)	YoY Change	Year-end (Plan)	YoY Change	Progress rate
Custom-made Wigs	11,182	22,938	9,945	(11.1%)	20,878	(9.0%)	47.6%
Hair addition Products	1,833	4,072	2,190	+19.5%	4,213	+3.5%	52.0%
Hair growth Services	586	1,134	538	(8.1%)	1,134	(0.0%)	47.5%
Styling services	2,650	5,230	2,673	+0.9%	5,288	+1.1%	50.6%
JULLIA OLGER	1,395	3,359	1,284	(7.9%)	3,601	+7.2%	35.7%
Others	954	2,006	1,088	+14.1%	1,809	(9.8%)	60.1%
Total	18,603	38,743	17,722	(4.7%)	36,925	(4.7%)	48.0%

FY2018 : Financial Forecast



(¥ million)

	FY2017		FY2018			
	1H FY2017 (Results)	Year-end (Results)	1H FY2018 (Results)	YoY Change	Year-end(Plan)	YoY Change
Net Sales	18,711	38,961	17,822	(4.7%)	37,271	(4.3%)
Men's Business	11,200	23,003	10,318	(7.9%)	21,440	(6.8%)
Ladies' Business	5,752	11,726	5,712	(0.7%)	11,451	(2.4%)
JULLIA OLGIER	1,395	3,359	1,284	(7.9%)	3,601	+7.2%
Others	363	871	506	+39.6%	779	(10.6%)
Cost of Sales	5,753	11,736	5,696	(1.0%)	11,923	+1.6%
Gross Profit	12,957	27,225	12,126	(6.4%)	25,348	(6.9%)
SG&A Expenses	11,828	24,408	11,080	(6.3%)	23,869	(2.2%)
Ad Spending	3,205	6,385	2,880	(10.1%)	5,920	(7.3%)
HR	2,951	6,216	2,777	(5.9%)	5,820	(6.4%)
Operating Income	1,129	2,816	1,045	(7.4%)	1,478	(47.5%)
Ordinary Income	1,004	2,923	1,120	+11.5%	1,521	(48.0%)
Net Income	629	1,394	387	(38.5%)	867	(37.8%)
Depreciation	571	1,198	526	(7.9%)	1,203	+0.4%
CAPEX	671	1,388	635	(5.5%)	2,106	+51.7%



<http://www.artnature.co.jp/english/index.html>

Forward-looking Statements

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.

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Reference Material

Scales trend in Domestic Hair Product Manufacturing Market



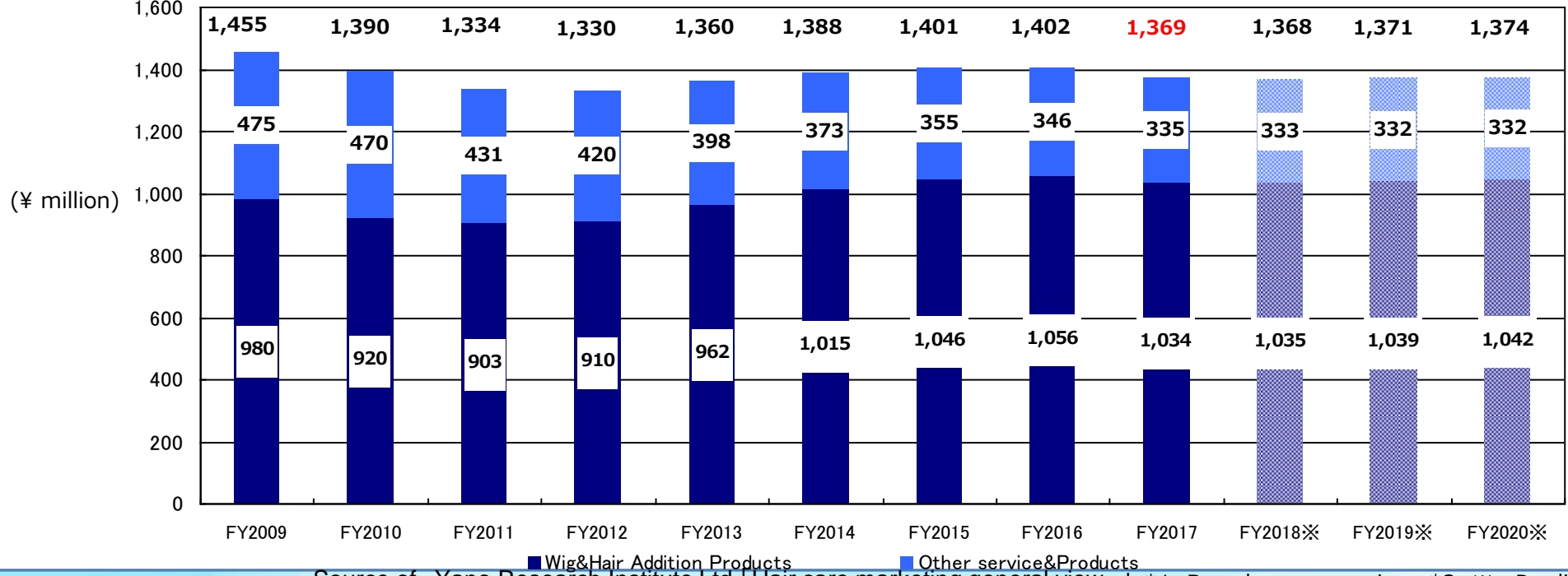
• Hair Product Manufacturing Market

The economic downturn caused by Lehman shock of 2008 Autumn brought sluggishness in consumer spending. In addition, the adjacent market increased competition. The market was able to expand from 2012 as companies enhanced promotions on ladies' wig, and the repeat sales for men's wig was fruitful. On 2016 new entrants and small/medium-sized businesses introduced low priced products to the market which caused a fall to 136,900million yen 97.6% from the previous year.

• Market Issues • Issues and Prospects

- Expansion of the ladies' market, and retaining customers from the low priced market.
- Revitalization of the hair addition market.
- Expansion of sales in hair care products.
- Ladies' wig for fist time users

The aging of society and the growing interest in aging care products gives a potential demand in the market. The market is expected to gradually grow from 2018.



Source of: Yano Research Institute Ltd. [Hair care marketing general view] *1. Based on companies *2. ※ Predicted value

(¥ million)(lower part composition ratio)

	1H FY2017	1H FY2018	YoY Change
Net Sales	18,711 (100.0%)	17,822 (100.0%)	(4.7%)
Gross Profit	12,957 (69.2%)	12,126 (68.0%)	(6.4%)
SG&A Expenses	11,828 (63.2%)	11,080 (62.2%)	(6.3%)
Operating Income	1,129 (6.0%)	1,045 (5.9%)	(7.4%)
Ordinary Income	1,004 (5.4%)	1,120 (6.3%)	+11.5%
Net Income	629 (3.4%)	387 (2.2%)	(38.5%)

(¥ million)(lower part composition ratio)

	FY2018				
	1H FY2018 (Results)	YoY Change	Year-end(Plan)	YoY Change	Progress rate
Net Sales	17,822 (100.0%)	(4.7%)	37,271 (100.0%)	(4.3%)	47.8%
Gross Profit	12,126 (68.0%)	(6.4%)	25,348 (68.0%)	(6.9%)	47.8%
SG&A Expenses	11,080 (62.2%)	(6.3%)	23,869 (64.0%)	(2.2%)	46.4%
Operating Income	1,045 (5.9%)	(7.4%)	1,478 (4.0%)	(47.5%)	70.8%
Ordinary Income	1,120 (6.3%)	+11.5%	1,521 (4.1%)	(48.0%)	73.7%
Net Income	387 (2.2%)	(38.5%)	867 (2.3%)	(37.8%)	44.7%

Consolidated Balance Sheets



	As of March 31, 2017		As of September 30, 2017		Rate of change	Major Factors on YoY Change
		Composition ratio		Composition ratio		
Total Current Assets	23,431	56.2%	23,076	56.6%	(1.5%)	Current assets (355) • Cash and deposits +46 • Accounts receivable – trade (465)
Cash and Deposits	15,482	37.1%	15,529	38.1%	+0.3%	
Total non-current Assets	18,298	43.8%	17,670	43.4%	(3.4%)	• Secutities (8) • Inventory (188)
Total Property, Plant and Equipment	10,342	24.8%	9,670	23.7%	(6.5%)	
Total Assets	41,729	100.0%	40,747	100.0%	(2.4%)	Non-current assets (627) • Investment securities+21
Total Current Liabilities	10,062	24.1%	9,340	22.9%	(7.2%)	• Property, plant and equipment (671) • Intangible assets (32)
Advances received	4,529	10.9%	4,621	11.3%	+2.0%	Current liabilities (721) • Advances received +91
Total Non-current Liabilities	7,234	17.3%	7,173	17.6%	(0.8%)	• Accrued income taxes (197) • Accounts payable (299)
Total Liabilities	17,296	41.4%	16,513	40.5%	(4.5%)	
Total Net Assets	24,432	58.6%	24,233	59.5%	(0.8%)	Net assets (199) • Retained earnings (142) (Net income +387)
Retained earnings	17,657	42.3%	17,514	43.0%	(0.8%)	(Cash dividends paid (530))
Total Liabilities and Net Assets	41,729	100.0%	40,747	100.0%	(2.4%)	

	As of September 30, 2016	As of September 30, 2017	Major Factors on YoY Change
Net Cash provided by (used in) operating activities	1,423	1,497	Net cash provided by (used in) operating activities +74
Net cash provided by (used in) investing activities	(2,942)	(679)	
Free Cash Flow	(1,519)	+818	<ul style="list-style-type: none"> • Impairment loss +660 • Advances received +94 • Decrease (increase) in notes and accounts receivable – trade (113) • Income before income taxes (516)
Net Cash provided by (used in) financing activities	(702)	(748)	Net cash provided by (used in) +2,263
Cash and cash equivalents at the beginning of period	16,072	15,515	<ul style="list-style-type: none"> • Purchase of property, plant and equipment +82 • Purchase of investment securities +2,000
Cash and cash equivalents at the end of period	13,707	15,552	Net cash provided by (used in) financing activities (46)
Net increase (decrease) in cash and cash equivalents	(2,364)	+37	<ul style="list-style-type: none"> • Cash dividends paid (66)