



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

July 28, 2017

Name of listed company: ARTNATURE INC. Listed on: Tokyo Stock Exchange
 Securities code: 7823 URL: <http://www.artnature.co.jp/english/index.html>
 Representative: Yoshikata Igarashi, Chairman and President
 Contact: Hiroaki Inoue, General Manager, Finance & Accounting Division Corporate Officer TEL: +81-3-3379-3334
 Scheduled date of filing the quarterly financial report: August 7, 2017
 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 first quarter ended June 30, 2017 (April 1, 2017 – June 30, 2017)

(1) Consolidated operating results (Percentage figures show changes from the previous year.)

	Net sales		Operating income (loss)		Ordinary income		Net income (loss) attributable to owners of the parent company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2017	8,243	(5.6)	(9)	—	16	(91.3)	(74)	—
Three months ended June 30, 2016	8,733	(9.1)	321	(61.5)	191	(78.7)	156	(67.9)

Note: Comprehensive income: Three months ended June 30, 2017: -¥168 million (—%)
 Three months ended June 30, 2016: ¥156 million (-67.0%)

	Net income (loss) per share	Diluted net income per share
	Yen	Yen
Three months ended June 30, 2017	(2.25)	—
Three months ended June 30, 2016	4.72	4.71

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2017	39,969	23,734	59.3	715.00
As of March 31, 2017	41,729	24,432	58.5	736.09

(Reference) Equity capital: As of June 30, 2017: ¥23,696 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
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2017	—	14.00	—	16.00	30.00
Year ending March 31, 2018	—				
Year ending March 31, 2018 (Forecast)		14.00	—	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 June 30, 2017	34,393,200 shares	As of March 31, 2017	34,393,200 shares
2) Number of treasury shares	As of June 30, 2017	1,251,738 shares	As of March 31, 2017	1,251,738 shares
3) Average number of shares issued and outstanding in each period	Three months ended June 30, 2017	33,141,462 shares	Three months ended June 30, 2016	33,121,962 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 first quarter and the cumulative first 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 three months of fiscal 2018

In the first three months of fiscal 2018 (April –June 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 first 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 first quarter of the fiscal year declined 5.6% year on year to ¥8,243 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. As a result, the Company reported an operating loss of ¥9 million, compared with operating income of ¥321 million in the same period a year earlier, a drop in ordinary income of 91.3% year on year to ¥16 million, and a net loss attributable to owners of the parent company of ¥74 million, compared with net income of ¥156 million in the same period a year earlier.

< Men’s business >

Sales in the men’s business declined 9.0% year on year to ¥4,554 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 rose 0.3% year on year to ¥2,846 million, supported by various initiatives such as efficiently holding sales shows and 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.

< Ladies’ ready-made wigs business >

Sales in the JULIA OLGIER business, which sells ladies’ ready-made wigs, declined 9.1% year on year to ¥655 million, 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 first quarter, total assets were ¥39,969 million, a decline of ¥1,759 million from the end of the previous fiscal year. Current assets decreased ¥1,719 million, mainly due to declines in cash and deposits, and accounts receivable – trade.

(Liabilities)

As of the end of the first quarter, liabilities totaled ¥16,235 million, a decline of ¥1,061 million from the end of the previous fiscal year. That mainly reflected a drop of ¥1,069 million in current liabilities due to declines in accounts payable – other and income taxes payable.

(Net Assets)

As of the end of the first quarter, net assets were ¥23,734 million, a decline of ¥698 million from the end of the previous fiscal year. This reflected a decrease in retained earnings.

(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 June 30, 2017
Assets		
Current assets		
Cash and deposits	15,482	14,063
Accounts receivable – trade	2,770	2,462
Securities	144	137
Merchandise and finished goods	1,726	1,741
Work in process	100	104
Raw materials and supplies	1,691	1,643
Others	1,516	1,562
Allowance for doubtful accounts	(1)	(1)
Total current assets	23,431	21,711
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,236	6,230
Others, net	4,106	4,042
Total property, plant and equipment	10,342	10,272
Intangible assets		
Others	1,081	1,044
Total intangible assets	1,081	1,044
Investments and other assets		
Others	6,938	7,004
Allowance for doubtful accounts	(64)	(64)
Total investments and other assets	6,873	6,940
Total non-current assets	18,298	18,258
Total assets	41,729	39,969

(Millions of yen)

	As of March 31, 2017	As of June 30, 2017
Liabilities		
Current liabilities		
Accounts payable – trade	235	303
Current portion of long-term loans payable	401	401
Accounts payable – other	1,880	874
Income taxes payable	740	148
Advances received	4,529	4,653
Provision for bonuses	980	1,246
Provision for directors' bonuses	113	37
Provision for product warranties	44	44
Provision for point card certificates	92	94
Others	1,042	1,187
Total current liabilities	10,062	8,992
Non-current liabilities		
Long-term loans payable	799	698
Provision for directors' retirement benefits	1,664	—
Net defined benefit liability	3,313	3,385
Asset retirement obligations	1,265	1,292
Others	192	1,865
Total non-current liabilities	7,234	7,242
Total liabilities	17,296	16,235
Net assets		
Shareholders' equity		
Capital stock	3,667	3,667
Capital surplus	3,557	3,557
Retained earnings	17,657	17,052
Treasury shares	(494)	(494)
Total shareholders' equity	24,387	23,782
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(10)	1
Foreign currency translation adjustment	207	88
Remeasurements of defined benefit plans	(189)	(176)
Total accumulated other comprehensive income	7	(86)
Subscription rights to shares	24	24
Non-controlling interests	12	13
Total net assets	24,432	23,734
Total liabilities and net assets	41,729	39,969

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

	(Millions of yen)	
	Three months ended June 30, 2016	Three months ended June 30, 2017
Net sales	8,733	8,243
Cost of sales	2,813	2,734
Gross profit	5,920	5,509
Selling, general and administrative expenses	5,598	5,518
Operating income (loss)	321	(9)
Non-operating income		
Interest income	32	24
Foreign exchange gains	—	4
Others	23	14
Total non-operating income	56	42
Non-operating expenses		
Interest expenses	2	1
Foreign exchange losses	152	—
Guarantee commission	14	9
Others	16	4
Total non-operating expenses	186	16
Ordinary income	191	16
Extraordinary income		
Gain on sales of non-current assets	0	—
Total extraordinary income	0	—
Extraordinary losses		
Loss on retirement of non-current assets	8	0
Impairment loss	—	4
Total extraordinary losses	8	4
Income before income taxes	183	11
Income taxes – current	80	104
Income taxes – deferred	(52)	(18)
Total income taxes	28	86
Net income (loss)	155	(74)
Net income (loss) attributable to non-controlling interests	(0)	0
Net income (loss) attributable to owners of the parent company	156	(74)

(Quarterly consolidated statements of comprehensive income)

	(Millions of yen)	
	Three months ended June 30, 2016	Three months ended June 30, 2017
Net income (loss)	155	(74)
Other comprehensive income		
Valuation difference on available-for-sale securities	—	12
Foreign currency translation adjustment	(15)	(119)
Remeasurements of defined benefit plans	15	13
Total other comprehensive income	0	(94)
Comprehensive income	156	(168)
(Comprehensive income attributable to)		
Owners of the parent company	157	(168)
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.