Consolidated Financial Results for the Fiscal Year Ended March 31, 2017 [J-GAAP]

May 15, 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	
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Scheduled date of holding the ordinary general meeting of shareholders:	June 22, 2017
Scheduled date to start dividends distribution:	June 23, 2017
Scheduled date of filing the financial report:	June 23, 2017
Supplementary documents for this summary of financial statements:	No
Explanation meeting for financial results:	Yes (for institutional investors and analysts)

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

1. Consolidated results for the fiscal year ended March 31, 2017 (April 1, 2016 – March 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	%
Year ended March 31, 2017	38,961	(3.8)	2,816	(18.5)	2,923	(15.4)	1,394	(19.5)
Year ended March 31, 2016	40,515	(1.9)	3,457	(14.5)	3,456	(18.9)	1,731	(23.1)

Note: Comprehensive income: Year ended March 31, 2017: ¥1,329 million (-16.3%) Year ended March 31, 2016: ¥1,588 million (-34.6%)

	Net income per share	Fully diluted net income per share	Return on shareholders' equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Year ended March 31, 2017	42.09	42.00	5.8	7.1	7.2
Year ended March 31, 2016	52.37	52.16	7.4	8.4	8.5

(Reference) Equity in earnings of affiliates: Year ended March 31, 2017: ¥— million Year ended March 31, 2016: ¥— million

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2017	41,729	24,432	58.5	736.09
As of March 31, 2016	40,734	23,653	58.0	712.77

(Reference) Equity capital: As of March 31, 2017: ¥24,395 million As of March 31, 2016: ¥23,608 million

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2017	4,301	(3,434)	(1,378)	15,515
Year ended March 31, 2016	3,106	(1,733)	(1,541)	16,072

2. Dividends

	Dividends per share					Total dividends (annual)	Dividends payout ratio (consolidated)	Dividends on net assets (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended March 31, 2016	—	14.00	—	14.00	28.00	926	53.5	4.0
Year ended March 31, 2017	—	14.00	—	16.00	30.00	994	71.3	4.1
Year ending March 31, 2018 (Forecast)	—	14.00	—	14.00	28.00		107.0	

Note: The year-end dividend for the fiscal year ended March 31, 2017 comprises an ordinary dividend of ¥14.00 and 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

Notes:

(1) Significant changes to subsidiaries during the term (Transfers of specific subsidiaries with changes in the scope of consolidation): None

(2) Changes in accounting policies, accounting estimates and restatement of revisions

1) Changes in accounting policies due to revision of accounting standard, etc.: Yes
2) Changes in accounting policies other than 1): None
3) Changes in accounting estimates: Yes
4) Restatement of revisions: None

Note: For more details, please refer to page 16 of the supplementary materials, "4. Consolidated Financial Statements, (5) Notes on consolidated financial statements, (Change in accounting policy) and (Change in accounting estimates)."

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

1) Number of shares issued and outstanding (including treasury stock)	As of March 31, 2017	34,393,200 shares	As of March 31, 2017	34,393,200 shares
2) Number of treasury stock	As of March 31, 2017	1,251,738 shares	As of March 31, 2017	1,271,238 shares
3) Average number of shares issued and outstanding in each period	Year ended March 31, 2017	33,131,422 shares	Year ended March 31, 2017	33,070,605 shares

*** This 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, etc., (1) Analysis of operating results."

Contents

1. Analysis of operating results, etc.

(1) Analysis of operating results

In fiscal 2017, ended March 31, 2017, the Japanese economy showed some signs of improvement in the employment environment and other areas, but the outlook remained uncertain amid continued weakness in consumer spending and concerns about the economic impact of the UK’s decision to leave the EU, the new administration in the US, and slowing growth in emerging economies.

Against this backdrop, ARTNATURE INC. and its consolidated subsidiaries (the ARTNATURE Group) targeted a return to sales and profit growth, based on five pillars: establish a sales system that balances efficiency with high levels of customer satisfaction; create a global manufacturing system capable of rapidly delivering high-quality products at low cost; build a robust earnings structure by encouraging a greater emphasis on profits and by boosting productivity; cultivate personnel that are resilient to change and establish a motivating workplace; and create a healthy management structure that wins the trust of the public by addressing their needs. Guided by these policies, the Group implemented a range of initiatives, such as improving customer retention by regulary launching innovative products and by enhancing the technical skills, customer service and product proposal capabilities of sales staff. The Group also reinforced the sales structure in the JULIA OLGER business, which sells ladies’ ready-made wigs.

However, for the fiscal year under review, net sales declined 3.8% year on year to ¥38,961 million due to the impact of continued sluggishness in consumer spending, intensifying competition with other companies and other factors. The Group reduced sales-related expenses and other costs, but this was insufficient to offset the drop in sales and the increase in cost of sales ratio. As a result, operating income declined 18.5% year on year to ¥2,816 million, ordinary income fell 15.4% to ¥2,923 million and net income attributable to owners of the parent company fell 19.5% to ¥1,394 million.

Sales in each segment were as follows:

< Men’s business >

Sales in the men’s business declined 1.9% year on year to ¥23,003 million. The business implemented initiatives such as reinforcing the customer supervisor system to improve customer retention and strengthening the technical skills, customer service and product proposal capabilities of sales staff to increase customer satisfaction. However, these measures were insufficient to offset a drop in sales.

< Ladies’ business >

Sales in the ladies business declined 8.2% year on year to ¥11,726 million. Various initiatives were implemented to improve the skills of sales staff, enhance customer follow-up support and encourage customers to visit stores more regularly. However, sales were mainly affected by increased competition from rival companies that led to weak orders at trial fitting events.

< Ladies’ ready-made wigs business >

Sales in the JULIA OLGER business, which sells ladies’ ready-made wigs, fell 2.2% year on year to ¥3,359 million, mainly due to a drop in the number of marketing events held.

(2) Analysis of financial position

(Assets)

As of the fiscal year-end, total assets were ¥41,729 million, an increase of ¥994 million compared with the end of the previous fiscal year. Current assets decreased ¥1,036 million, mainly due to declines in accounts receivable – trade, merchandise and finished goods, and securities, while non-current assets rose ¥2,031 million, primarily due to increases in investment securities and deferred tax assets.

(Liabilities)

As of the fiscal year-end, liabilities totaled ¥17,296 million, an increase of ¥215 million compared with the end of the previous fiscal year. This mainly reflected an increase of ¥186 million in non-current liabilities due to increases in provision for directors’ retirement benefits and net defined benefit liability.

(Net Assets)

As of the fiscal year-end, net assets totaled ¥24,432 million, an increase of ¥779 million compared with the end of the previous fiscal year. This primarily reflected an increase of ¥842 million in retained earnings.

(3) Analysis of cash flow

As of the fiscal year-end, cash and cash equivalents (cash) totaled ¥15,515 million, a decrease of ¥557 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 ¥4,301 million, compared with ¥3,106 million in the previous fiscal year. This mainly reflected income before income taxes of ¥2,269 million, depreciation of ¥1,267 million, impairment loss of ¥609 million, decrease in notes and accounts receivable – trade of ¥243 million, and decrease in inventories of ¥348 million, versus income taxes paid of ¥1,278 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥3,434 million, compared with ¥1,733 million in the previous fiscal year. This mainly reflected purchase of investment securities of ¥2,000 million, purchase of property, plant and equipment of ¥877 million and purchase of intangible assets of ¥377 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥1,378 million, compared with ¥1,541 million in the previous fiscal year. This mainly reflected repayments of long-term loans payable of ¥401 million and cash dividends paid of ¥926 million.

The Group’s cash flow-related indicators are as follows:

Year ended March 31,	2013	2014	2015	2016	2017
Equity ratio (%)	54.3	56.5	55.8	58.0	58.5
Market value-based equity ratio (%)	77.5	128.4	88.4	82.4	59.2
Cash flow to interest-bearing debt (%)	–	–	59.9	51.6	27.9
Interest coverage ratio (times)	–	–	2,889.2	261.3	468.3

Notes: The above indicators are calculated as follows:

Equity ratio:	Equity capital / total assets
Market value-based equity ratio:	Market capitalization / total assets
Cash flow to interest-bearing debt:	Interest-bearing debt / cash flow from operating activities
Interest coverage ratio:	Cash flow from operating activities / interest payments

* All indicators are calculated using consolidated financial data.
* Market capitalization is calculated by multiplying the number of shares outstanding at the fiscal year end (excluding treasury stock) by the closing share price at the fiscal year end.
* Cash flow is "Cash flow from operating activities” shown on the consolidated statements of cash flow.
* Interest-bearing debt is all liabilities on which interest is paid shown under liabilities on the consolidated balance sheet. Interest payments are “Interest paid” shown on the consolidated statement of cash flow.

(4) Business forecasts

In fiscal 2018, ending March 31, 2018, we expect the economy to continue recovering at a modest pace. However, amid a weak pickup in consumer spending, we expect the Group’s operating environment to remain challenging, due mainly to intensifying competition from companies within the same sector.

Against this backdrop, the Company formulated a new medium-term management plan called the “ARTNATURE REBORN Plan.” In the plan’s first year, the whole Group will focus on establishing the foundations to support a recovery in earnings. From the second year of the plan, the Group will use those foundations to deliver stable growth. In custom-made wigs, our mainstay product category, the men’s business and the ladies’ business will both work to increase the number of customers by focusing on raising customer satisfaction. In the JULIA OLGER ladies’ ready-made wigs business, we will focus on upgrading sales areas and frontline capabilities in our nationwide retail store network in order to reinforce a loyal base of customers. We are also targeting growth by focusing on the online business and the overseas business.

Based on these initiatives, for fiscal 2018, we forecast consolidated net sales of ¥37,271 million, down 4.3% year on year, operating income of ¥1,478 million, down 47.5%, ordinary income of ¥1,521 million, down 48.0%, and net income attributable to owners of the parent company of ¥867 million, down 37.8%.

(5) Basic policy on distribution of profits and dividends for fiscal 2017 and fiscal 2018

ARTNATURE Group believes that returning profits to shareholders is one of the most important issues for management. The Company’s basic policy is to pay stable dividends to shareholders while ensuring there are sufficient internal reserves to reinforce the Group’s management base and financial position and to invest in future business expansion.

In line with this policy, the Company will pay a full-year dividend of ¥30 per share for fiscal 2017, ended March 31, 2017, comprising an interim dividend of ¥14 per share and a year-end dividend of ¥16 per share (comprising an ordinary dividend of ¥14.00 and a commemorative dividend of ¥2.00 to mark the Company’s 50th anniversary).

For fiscal 2018, ending March 31, 2018, the Company plans to pay a full-year dividend of ¥28 per share, comprising an interim dividend of ¥14 per share and a year-end dividend of ¥14 per share.

2. Management policies

(1) Basic management policy

As a comprehensive hair consultancy business, ARTNATURE strives to help all customers with concerns about their hair by providing them with the highest-quality products and services for their needs. Our management philosophy is to "foster a culture of hair that satisfies customers."

To make this philosophy a reality, the Group is reinforcing its product development capabilities, upgrading its manufacturing framework, and improving its sales service system in areas such as counseling, customer support and styling skills, while also striving to operate its business in a way that wins the trust of shareholders, investors and all other stakeholders by strengthening its compliance system and actively disclosing corporate information.

(2) Management indicators and targets

The Group is working to expand its comprehensive hair consultancy business and boost profitability as well as capital efficiency by increasing sales and promoting efficient management.

We are therefore focusing on three key performance indicators: sales, ordinary margin (ratio of ordinary income to net sales) and ROE (return on equity).

We are targeting sales of ¥37,271 million in fiscal 2018, compared with ¥38,961 million in fiscal 2017, as we intend to focus on upgrading our sales structure.

We also aim to steadily increase the ordinary margin by overhauling our earnings structure to create an efficient and effective framework for earnings.

In addition, we will operate our business with an emphasis on ROE to ensure we use capital entrusted by shareholders efficiently and increase corporate value.

(3) Medium- and long-term management strategy

We have formulated a new three-year medium-term management plan called the “ARTNATURE REBORN Plan,” starting in fiscal 2018, based on the above performance indicators.

The plan is anchored by four key areas of focus: customer satisfaction, systemic reform, personnel training and employee satisfaction. The whole Group will work as one to steadily implement initiatives in line with those four areas, aiming for consolidated net sales of ¥40,932 million, an ordinary margin of 6.8% and ROE of 6.5% three years from now (fiscal 2020).

(4) Issues to be resolved

We project rising demand in the domestic hair products and services market, where the ARTNATURE Group is active, due to trends such as increased stress in society, population aging and growing interest in anti-aging treatments. However, we also expect competition to intensify with companies in the sector of hair products and services, and with companies in peripheral industries. In this environment, we plan to work on the following key issues in order to generate stable growth and boost corporate value.

First, we will increase the number of customers in domestic and overseas markets. We will generate new demand by developing and regularly launching the highest-quality products and services in line with customer needs, and by devising advertising campaigns that resonate more closely with customers. In both the men’s category and the ladies’ category, we aim to deliver stable growth by focusing on raising customer satisfaction and increasing the number of “true ARTNATURE fans,” while also reinforcing the customer supervisor system to further improve customer retention. In the JULIA OLGER ladies’ ready-made wigs business, we will target earnings growth by upgrading sales areas and frontline business capabilities, enabling us to offer proposals that match the individual needs of each customer. In overseas markets, we will work to expand our business by raising brand awareness and implementing sales initiatives tailored to local markets in China, Singapore, Thailand and Malaysia in order to capture potential demand.

Second, we will switch to a business structure that enables the Group to generate stronger earnings. We will overhaul the Group’s earnings structure and rigorously eliminate waste in all areas of our business to reduce fixed costs and lower the breakeven point, resulting in an efficient and effective earnings structure.

Third, we will improve our capacity to address the needs of all types of customers. As of March 31, 2017, 1,901 employees, or roughly 80% of the Company’s permanent employees, were qualified as barbers or hairdressers. We aim to increase customer trust and satisfaction by enhancing the basic capabilities of those employees – their technical skills, customer service skills and product proposal capabilities – allowing us to better address customer needs. Also, to transform our employees in non-sales divisions into experts in their respective fields, we will establish training courses and build systems to support self-study as part of wider efforts to upgrade personnel training.

Fourth, we aim to retain high-level human resources. We have developed a range of initiatives to increase the motivation of all our employees and ensure they reach their maximum potential. We are implementing diversity management, illustrated by our certification as an “Eruboshi” company, which recognizes the Company’s efforts in promoting the active involvement of female employees in line with the Act on Promotion of Women’s Participation and Advancement in the Workplace. Also, amid the current focus on “workstyle reforms,” we emphasize work-life balance, such as eliminating long overtime hours and providing support so that employees can balance work and family commitments, while also actively promoting health management. We plan to introduce various other initiatives to foster a shared sense of unity with our employees and create more rewarding workplaces.

3. Basic stance on selection of accounting standards

The Group uses Japanese accounting standards, as many shareholders, creditors, business partners and other stakeholders are based in Japan, and there is limited need for the Group to procure funds overseas.

4. Consolidated financial statements

(1) Consolidated balance sheets

(Thousands of yen)

	As of March 31, 2016	As of March 31, 2017
Assets		
Current assets		
Cash and deposits	14,050,920	15,482,883
Accounts receivable – trade	3,024,585	2,770,819
Secutities	2,021,488	144,637
Merchandise and finished goods	1,959,211	1,726,008
Work in process	122,470	100,330
Raw materials and supplies	1,821,481	1,691,560
Deferred tax assets	508,446	555,576
Others	964,039	961,232
Allowance for doubtful accounts	(5,242)	(1,685)
Total current assets	24,467,400	23,431,363
Non-current assets		
Property, plant and equipment		
Buildings and structures	13,732,274	13,532,111
Accumulated depreciation	(6,758,321)	(7,295,691)
Buildings and structures, net	6,973,952	6,236,420
Machinery equipment and vehicle	159,719	160,456
Accumulated depreciation	(125,891)	(127,534)
Machinery equipment and vehicle, net	33,827	32,921
Land	3,540,606	3,533,483
Construction in progress	–	39,852
Others	2,465,505	2,545,851
Accumulated depreciation	(1,810,982)	(2,045,643)
Others, net	654,522	500,207
Total property, plant and equipment	11,202,909	10,342,884
Intangible assets		
Others	934,930	1,081,426
Total intangible assets	934,930	1,081,426
Investments and other assets		
Investment securities	353,081	2,310,245
Deferred tax assets	1,335,391	2,038,557
Lease and guarantee deposits	2,339,761	2,337,322
Net defined benefit asset	20,112	20,582
Others	145,917	231,756
Allowance for doubtful accounts	(64,848)	(64,488)
Total investments and other assets	4,129,414	6,873,975
Total non-current assets	16,267,254	18,298,287
Total assets	40,734,655	41,729,650

(Thousands of yen)

	As of March 31, 2016	As of March 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable – trade	314,102	235,672
Current portion of long-term loans payable	401,364	401,364
Accounts payable – other	1,921,385	1,880,717
Income taxes payable	681,130	740,953
Advances received	4,288,745	4,529,875
Provision for bonuses	815,827	980,739
Provision for directors' bonuses	150,000	113,000
Provision for product warranties	46,231	44,800
Provision for point card certificates	81,868	92,816
Others	1,332,435	1,042,343
Total current liabilities	10,033,090	10,062,282
Non-current liabilities		
Long-term loans payable	1,200,404	799,040
Provision for directors' retirement benefits	1,283,252	1,664,131
Net defined benefit liability	3,203,880	3,313,297
Asset retirement obligations	1,217,011	1,265,360
Others	143,580	192,676
Total non-current liabilities	7,048,128	7,234,505
Total liabilities	17,081,219	17,296,788
Net assets		
Shareholders' equity		
Capital stock	3,667,245	3,667,245
Capital surplus	3,556,426	3,557,676
Retained earnings	16,815,192	17,657,352
Treasury stock	(502,610)	(494,900)
Total shareholders' equity	23,536,254	24,387,374
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,644	(10,184)
Foreign currency translation adjustment	368,615	207,679
Remeasurements of defined benefit plans	(300,275)	(189,731)
Total accumulated other comprehensive income	71,984	7,763
Subscription rights to shares	31,570	24,740
Non-controlling interests	13,626	12,984
Total net assets	23,653,435	24,432,862
Total liabilities and net assets	40,734,655	41,729,650

(2) Consolidated statements of income and comprehensive income

(Consolidated statements of income)

(Thousands of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Net sales	40,515,407	38,961,918
Cost of sales	11,395,766	11,736,714
Gross profit	29,119,641	27,225,204
Selling, general and administrative expenses	25,662,264	24,408,632
Operating income	3,457,377	2,816,572
Non-operating income		
Interest income	117,311	110,603
Foreign exchange gains	–	6,842
Commission fee	21,283	21,420
Others	50,450	72,834
Total non-operating income	189,045	211,700
Non-operating expenses		
Interest expenses	12,087	9,381
Foreign exchange losses	103,189	–
Loss on valuation of investment securities	6,144	11,506
Guarantee commission	44,508	53,504
Others	23,591	29,894
Total non-operating expenses	189,520	104,287
Ordinary income	3,456,901	2,923,985
Extraordinary income		
Gain on sales of non-current assets	811	269
Total extraordinary income	811	269
Extraordinary losses		
Loss on retirement of non-current assets	50,508	45,024
Impairment loss	98,395	609,450
Total extraordinary losses	148,903	654,475
Income before income taxes	3,308,808	2,269,779
Income taxes – current	1,506,565	1,312,899
Income taxes – deferred	70,945	(437,338)
Total income taxes	1,577,510	875,561
Net income	1,731,297	1,394,218
Net income (loss) attributable to non-controlling interests	(640)	(162)
Net income attributable to owners of the parent company	1,731,937	1,394,380

(Consolidated statements of comprehensive income)

(Thousands of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Net income	1,731,297	1,394,218
Other comprehensive income		
Valuation difference on available-for-sale securities	(8,698)	(13,828)
Foreign currency translation adjustment	2,864	(161,415)
Remeasurements of defined benefit plans	(137,425)	110,543
Total other comprehensive income	(143,259)	(64,700)
Comprehensive income	1,588,038	1,329,517
(Comprehensive income attributable to)		
Owners of the parent company	1,588,864	1,330,158
Non-controlling interests	(826)	(641)

(3) Consolidated statements of changes in net assets

Year ended March 31, 2016

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of period	3,663,375	3,552,020	16,041,854	(512,178)	22,745,072
Change of items during the period					
Issuance of new shares	3,870	3,870			7,740
Dividends from surplus			(958,599)		(958,599)
Net income attributable to owners of the parent company			1,731,937		1,731,937
Disposal of treasury stock		535		9,567	10,103
Net changes of items other than shareholders' equity					
Total change of items during the period	3,870	4,405	773,338	9,567	791,182
Balance at the end of the period	3,667,245	3,556,426	16,815,192	(502,610)	23,536,254

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of period	12,342	365,565	(162,849)	215,058	41,650	11,086	23,012,866
Change of items during the period							
Issuance of new shares							7,740
Dividends from surplus							(958,599)
Net income attributable to owners of the parent company							1,731,937
Disposal of treasury stock							10,103
Net changes of items other than shareholders' equity	(8,698)	3,050	(137,425)	(143,073)	(10,079)	2,539	(150,613)
Total change of items during the period	(8,698)	3,050	(137,425)	(143,073)	(10,079)	2,539	640,569
Balance at the end of the period	3,644	368,615	(300,275)	71,984	31,570	13,626	23,653,435

Year ended March 31, 2017

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of period	3,667,245	3,556,426	16,815,192	(502,610)	23,536,254
Cumulative effects of changes in accounting policies			375,370		375,370
Restated balance	3,667,245	3,556,426	17,190,563	(502,610)	23,911,624
Change of items during the period					
Dividends from surplus			(927,591)		(927,591)
Net income attributable to owners of the parent company			1,394,380		1,394,380
Disposal of treasury stock		1,250		7,709	8,960
Net changes of items other than shareholders' equity					
Total change of items during the period	-	1,250	466,789	7,709	475,749
Balance at the end of the period	3,667,245	3,557,676	17,657,352	(494,900)	24,387,374

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of period	3,644	368,615	(300,275)	71,984	31,570	13,626	23,653,435
Cumulative effects of changes in accounting policies							375,370
Restated balance	3,644	368,615	(300,275)	71,984	31,570	13,626	24,028,805
Change of items during the period							
Dividends from surplus							(927,591)
Net income attributable to owners of the parent company							1,394,380
Disposal of treasury stock							8,960
Net changes of items other than shareholders' equity	(13,828)	(160,936)	110,543	(64,221)	(6,830)	(641)	(71,693)
Total change of items during the period	(13,828)	(160,936)	110,543	(64,221)	(6,830)	(641)	404,056
Balance at the end of the period	(10,184)	207,679	(189,731)	7,763	24,740	12,984	24,432,862

(4) Consolidated statements of cash flows

(Thousands of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Cash flows from operating activities		
Income before income taxes	3,308,808	2,269,779
Depreciation	1,237,653	1,267,522
Impairment loss	98,395	609,450
Increase (decrease) in allowance for doubtful accounts	(5,021)	(3,916)
Increase (decrease) in provision for bonuses	31	164,915
Increase (decrease) in provision for directors' bonuses	–	(37,000)
Increase (decrease) in provision for product warranties	14,656	(1,430)
Increase (decrease) in provision for point card certificates	16,182	10,948
Increase (decrease) in provision for directors' retirement benefits	50,643	380,878
Increase (decrease) in net defined benefit liability	516,645	268,747
Interest income	(117,311)	(110,603)
Interest expenses	12,087	9,381
Loss on retirement of non-current assets	50,508	45,024
Loss (gain) on sales of non-current assets	(811)	(269)
Loss (gain) on valuation of investment securities	6,144	11,506
Decrease (increase) in notes and accounts receivable – trade	764,222	243,596
Decrease (increase) in inventories	(501,038)	348,120
Increase (decrease) in notes and accounts payable – trade	(37,288)	(72,911)
Increase (decrease) in advances received	(297,108)	241,130
Others	(112,415)	(172,262)
Subtotal	5,004,982	5,472,608
Interest income received	115,679	116,512
Interest expenses paid	(11,892)	(9,186)
Income taxes paid	(2,001,827)	(1,278,043)
Net cash provided by (used in) operating activities	3,106,941	4,301,891
Cash flows from investing activities		
Payments into time deposits	–	(214,730)
Proceeds from withdrawal of time deposits	–	113,610
Purchase of property, plant and equipment	(1,453,070)	(877,468)
Proceeds from sales of property, plant and equipment	811	269
Purchase of intangible assets	(267,155)	(377,259)
Purchase of investment securities	–	(2,000,000)
Collection of long-term loans receivable	440	420
Payments for lease and guarantee deposits	(92,348)	(70,777)
Proceeds from collection of lease and guarantee deposits	82,779	67,820
Others	(5,121)	(76,361)
Net cash provided by (used in) investing activities	(1,733,665)	(3,434,477)

(Thousands of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Cash flows from financing activities		
Repayments of long-term loans payable	(401,364)	(401,364)
Repayments of lease obligations	(190,020)	(50,257)
Proceeds from issuance of common shares	7,740	−
Cash dividends paid	(957,871)	(926,521)
Net cash provided by (used in) financing activities	(1,541,516)	(1,378,142)
Effect of exchange rate change on cash and cash equivalents	(68,950)	(46,359)
Net increase (decrease) in cash and cash equivalents	(237,190)	(557,087)
Cash and cash equivalents at the beginning of period	16,309,599	16,072,409
Cash and cash equivalents at the end of period	16,072,409	15,515,321

(5) Notes on consolidated financial statements

(Notes related to the going concern assumption)

There is no related information.

(Basic important matters for preparing the consolidated financial statements)

1. Items related to the scope of consolidation

All the Company's subsidiaries are consolidated

Number of consolidated subsidiaries: 11

Name of important consolidated subsidiaries

ARTNATURE PHILIPPINES INC., ARTNATURE MANUFACTURING PHILIPPINES INC.
ARTNATURE (SHANGHAI) INC. (ANCN), ARTNATURE (CAMBODIA) INC.

MJO INC. (MJO), a consolidated subsidiary in the previous fiscal year, has been excluded from the scope of consolidation following a merger with a company submitting consolidated financial statements.

2. Notes related to fiscal years and other details of consolidated subsidiaries

The Company has nine consolidated subsidiaries with December 31 fiscal year ends. The Company's consolidated financial statements are prepared based on the financial statements of those companies at their fiscal year-ends. Where necessary, any significant transactions that occur between their fiscal year-ends and the Company's consolidated balance sheet date are reflected in the consolidated financial statements.

All other consolidated subsidiaries have the same fiscal year-ends as the Company's consolidated balance sheet date.

3. Items related to accounting policies

(1) Valuation standards and methods for important assets

1) Securities

Other marketable securities

With market value

Market value method based on market prices on the fiscal year closing date. (All valuation differences are booked directly to net assets, while cost of sales is calculated using the moving average method.) Hybrid financial instruments, from which an embedded derivative cannot be separated, are stated at fair value and gains or losses are recognized in the consolidated financial statements for that fiscal year.

Without market value

Moving average cost method

2) Derivatives

Market value method

3) Inventories

Products

Wigs

Custom-made wigs

Cost method based on the specific cost method

Other wigs

Moving average cost method

Other products

Moving average cost method

(The value of products on the balance sheet is written down based on declines in the profitability of those products)

Products, materials, work-in-process

Cost method mainly based on the moving average cost method

(The value of products on the balance sheet is written down based on declines in the profitability of those products)

Inventory goods

Loaned products

Moving average cost method

Sample products

Cost method based on the specific cost method

Other inventory goods

Last cost method

(The value of products on the balance sheet is written down based on declines in the profitability of those products)

(2) Depreciation and amortization methods for important depreciable assets

1) Property, plant and equipment (Excluding lease assets)

Declining balance method

However, the straight-line method is used for buildings and structures (excluding attached facilities) purchased after April 1, 1998 and for attached facilities and structures purchased after April 1, 2016. At overseas consolidated subsidiaries, the straight-line method is used for tangible fixed assets.

Expected useful lives of assets are principally as follows:

Buildings and structures: 10 – 50 years

2) Intangible assets (Excluding lease assets)

Straight-line method

Software for use by the Company is based on estimated usable life within the Company (five years).

3) Lease assets

Lease assets related to the finance lease transactions other than those where the ownership of the lease assets is deemed to be transferred to the lessee

Straight-line method assuming the lease period as the useful life and no residual value

4) Long-term prepaid expenses

Straight-line method

(3) Accounting standards for important allowances and provisions

1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for at an amount determined based on the loan loss ratio with respect to general receivables, plus an estimate of unrecoverable amounts determined by reference to specific doubtful receivables from customers experiencing financial difficulties.

2) Provision for bonuses

Provision for employee bonuses is provided for at the expected payment amount.

3) Provision for directors’ bonuses

Provision for director bonuses is provided for at the expected payment amount.

4) Provision for point card certificates

Provision for the use of points given to customers under the point card system is provided for at the amount expected to cover the estimated cost of points used in the future based on historical rates of point usage.

5) Provision for directors’ retirement benefits

Retirement benefits for directors are provided for at the expected payment amount at the end of the fiscal year in accordance with internal rules.

6) Provision for product warranties

Allowance for product warranties is provided for at an expected amount to cover repair costs under free repair guarantees, based on historical repair rates.

(4) Accounting for retirement benefits

1) Allocation of expected benefit payments

When calculating retirement benefit liabilities, the straight-line method is used to allocate expected benefit payments to the period until this fiscal year-end.

2) Actuarial differences

Actuarial differences are amortized using the straight-line method over a period within the average remaining service years for employees (mainly six years) at the time of recognition, and recorded as expenses from the fiscal year following the fiscal year of recognition.

(5) Standards for translation of foreign currency-denominated assets and liabilities into Japanese yen

Foreign currency receivable and payable is converted into Japanese yen at the exchange rates prevailing at the consolidated balance sheet date, and translation is recorded as income or expeses.

The assets and liabilities of overseas consolidated subsidiaries are translated into Japanese yen based on spot exchange rates at their respective balance sheet dates, while revenues and expenses at overseas consolidated subsidiaries are converted based on average exchange rates during the fiscal year. Differences arising from such translations are included in both "Foreign currency translation adjustments" and "Non-controlling interests" in the net assets section of the balance sheet.

(6) Scope of funds in the consolidated statements of cash flows

Funds include cash at hand, demand deposits at banks and highly liquid short-term investments with negligible risk of fluctuation in value and maturities of less than three months.

(7) Goodwill amortization method and period

Goodwill is amortized using the straight-line method over a period of five years.

(8) Additional information related to the preparation of consolidated financial statements

Accounting treatment of consumption and other taxes

Tax exclusion method

(Change in accounting policy)

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the fiscal year under review, the Company has applied the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016), resulting in certain changes to accounting treatment related to the recoverability of deferred tax assets.

In accordance with provisional accounting treatment provided for in Article 49-4 of the Guidance, the difference in amounts between deferred tax assets and deferred tax liabilities classified under categories (i)–(iii) in Article 49-3 of the Guidance as of the start of the fiscal year under review and those deferred tax assets and deferred tax liabilities as of the end of the previous fiscal year is added to retained earnings at the start of the fiscal year under review.

As a result, at the start of the fiscal year under review, deferred tax assets increased by ¥375 million and retained earnings increased by ¥375 million.

(Application of Practical Solution on Change in Depreciation Method due to Tax Reform 2016)

Following revisions to the Corporation Tax Act, the Company has applied the Practical Solution on Change in Depreciation Method due to Tax Reform 2016 (Accounting Standards Board of Japan (ASBJ), PITF No. 32, June 17, 2016), effective from the fiscal year under review. As a result, the depreciation method for building fixtures and structures purchased on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

This change in depreciation method had an immaterial impact on operating income, ordinary income and income before income taxes in the fiscal year under review.

(Change in accounting estimates)

(Change in estimate of asset retirement obligations)

The Company's asset retirement obligations include contractual commitments to return stores and other leased real estate to their original condition. After receiving up-to-date information, the Company has adjusted its estimates for the costs required to return stores to their original condition after use and for the projected period of store use.

As a result of these changes, the Company's balance of asset retirement obligations has increased by ¥14 million.

For the fiscal year under review, the new estimates reduce operating income and ordinary income each by ¥29 million and income before income taxes by ¥43 million.

(Additional information)

(Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts)

(1) Summary of transactions

The Company has introduced an Employee Stock Ownership Plan (J-ESOP) to motivate and incentivize employees to increase the share price and results. The scheme is designed to create a closer link between employee remuneration and the Company's share price and results so that economic benefits are shared among shareholders. In accordance with the provisions of the Company's stock benefit regulations, employees that satisfy certain criteria are granted shares in the Company.

Specifically, employees are awarded points based on performance, and accumulated points can be converted into shares of the Company once certain conditions are met. Shares granted to employees, including shares to be granted in the future, are acquired using funds held in trust and managed independently as trust assets. In addition to increasing the motivation of employees and encouraging greater interest in the Company's share price, this scheme is also expected to help the Company retain and attract high-caliber personnel.

(2) Accounting treatment related to transactions for granting shares to employees through trusts

The Company has applied the provisions in paragraph 20 of the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ Practical Issues Task Force No. 30, March 26, 2015) and continued to use existing accounting treatment.

(3) Items related to shares of the Company held in trust

The book value of shares held in trust was ¥183,566,000 in the previous fiscal year and ¥182,004,000 in the fiscal year under review. In addition, shares of the Company held in trust were recorded under net assets as treasury stock at book value in the trust (excluding associated costs). Shares held in trust totaled 279,100 at the end of the previous fiscal year and 276,000 at the end of the fiscal year under review. The average number of shares held in trust was 191,395 during the previous fiscal year and 278,050 during the fiscal year under review. These shares are included in treasury stock, which is deducted from calculations of per share data.

(Consolidated balance sheets)

1 Commitment line

The Company has concluded commitment line contracts with four financial institutions in order to secure efficient fund procurement.

The balance of available funds under these contacts at the end of the fiscal year was as follows:

(Thousands of yen)

	As of March 31, 2016	As of March 31, 2017
Total amount of commitment line	5,000,000	5,000,000
Funds borrowed	–	–
Balance	5,000,000	5,000,000

(Consolidated statements of income)

*1 Inventory amounts at the fiscal year-end are after writedowns to book value related to declines in profitability and the following valuation loss on inventories is included in the cost of sales.

(Thousands of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
	131,916	213,267

*2 The main components in selling, general and administrative expenses and their amounts are as follows:

(Thousands of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Advertising expenses	6,903,651	6,385,539
Salaries	4,365,638	4,014,122
Provision for bonuses	359,456	416,965
Provision for point card certificates	16,182	10,948
Provision for retirement benefits	175,055	213,999
Provision for directors' bonuses	150,000	82,000
Provision for directors' retirement benefits	50,643	534,892
Depreciation	1,189,876	1,198,417
Rent expenses	3,186,989	3,199,906

*3 Total research and development expenses included in general and administrative expenses are as follows:

(Thousands of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
	135,769	146,117

*4 Breakdown of gain on sales of non-current assets is as follows:

(Thousands of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Machinery, equipment and vehicles	811	269

*5 Breakdown for loss on retirement of non-current assets are as follows:

(Thousands of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Buildings and structures	50,066	43,791
Machinery, equipment and vehicles	138	—
Other property, plant and equipment	303	1,232
Total	50,508	45,024

*6 Impairment loss

The Company has booked impairment losses on the following asset groups.

Year ended March 31, 2016

(1) Main assets for which impairment losses have been recognized

Company / location	Application	Type
ARTNATURE INC. (Tokyo and four other prefectures)	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary MJO INC. (Japan)	Stores (Business assets)	Buildings and structures, etc.

(2) Reasons for recognition of impairment losses

Impairment losses were recognized on the business assets due to sustained losses arising from operating activities at those business sites.

(3) Breakdown of impairment losses

Main purpose	Type	Amount (Thousands of yen)
Stores	Buildings and structures, etc.	98,395
Total		98,395

* Breakdown of impairment losses by applications

・ Stores ¥98,395,000 (comprising ¥90,753,000 for buildings and structures, and ¥7,641,000 for other tangible fixed assets).

(4) Asset grouping method

The Group groups its business assets on a single store basis.

(5) Recoverable value calculation method

The recoverable value of stores is calculated based on value in use. The discount rate has been omitted, as undiscounted future cash flow is negative.

Year ended March 31, 2017

(1) Main assets for which impairment losses have been recognized

Company / location	Application	Type
ARTNATURE INC. (Tokyo and 23 other prefectures)	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ARTNATURE (SHANGHAI) INC. (ANCN) (China)	Stores (Business assets)	Buildings and structures, etc.

(2) Reasons for recognition of impairment losses

Impairment losses were recognized on the business assets due to sustained losses arising from operating activities at those business sites.

(3) Breakdown of impairment losses

Main purpose	Type	Amount (Thousands of yen)
Stores	Buildings and structures, etc.	609,450
Total		609,450

* Breakdown of impairment losses by applications

・ Stores ¥609,450,000 (comprising ¥573,704,000 for buildings and structures, and ¥35,746,000 for other tangible fixed assets).

(4) Asset grouping method

The Group groups its business assets on a single store basis.

(5) Recoverable value calculation method

The recoverable value of stores is calculated based on value in use. The discount rate has been omitted, as undiscounted future cash flow is negative.

(Consolidated statements of cash flows)

* The relationship between the balance of cash and cash equivalents at the end of the fiscal year and the amount shown on the consolidated balance sheet is shown below:

(Thousands of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Cash and deposit account	14,050,920	15,482,883
Deposit account (over 3 months)	–	(112,200)
Securities account	2,021,488	144,637
Cash and cash equivalents	16,072,409	15,515,321

(Segment information, etc.)

Segment information

1. Overview of reportable segments

The Group's reportable segments are components of the Group for which separate financial information is available. These segments are regularly reviewed to enable the Company's Board of Directors to decide how to allocate resources and assess operating performance.

The Group develops business strategy and conducts business activities related to hair products and services for general customers based on the gender of the customer.

Consequently, the Group has classified its operations into three reportable segments: the men's business, the ladies' business and the ladies's ready-made wigs business. In the men's business, the Company supplies male customers with custom-made wigs and other products and services. In the ladies' business, the Company supplies female customers with custom-made wigs and other products and services. In the ladies' ready-made wigs business, the Company supplies female customers with ready-made wigs and other products and services.

2. Method used to calculate sales, income (loss), assets, liabilities and other items by reportable segment

Accounting policies for the reportable segments are the same as those described in "Basic important matters for preparing the consolidated financial statements."

Intersegment sales are booked based on the value of transactions with external customers.

3. Information regarding sales, income (loss), assets, liabilities and other items by reportable segment
Year ended March 31, 2016

(Thousands of yen)

	Reportable segment				Others Note 1	Total	Adjustment Note 2	Carried on consolidated financial statements Note 3
	Men's business	Ladies' business	Ladies' ready-made wigs business	Total				
Net sales								
Sales to external customers	23,439,522	12,779,937	3,436,223	39,655,682	859,724	40,515,407	–	40,515,407
Intersegment sales and transfers	–	–	–	–	2,750,790	2,750,790	(2,750,790)	–
Total	23,439,522	12,779,937	3,436,223	39,655,682	3,610,515	43,266,198	(2,750,790)	40,515,407
Segment income	16,151,375	9,131,103	2,947,998	28,230,477	897,274	29,127,751	(8,110)	29,119,641

Year ended March 31, 2017

(Thousands of yen)

	Reportable segment				Others Note 1	Total	Adjustment Note 2	Carried on consolidated financial statements Note 3
	Men's business	Ladies' business	Ladies' ready-made wigs business	Total				
Net sales								
Sales to external customers	23,003,889	11,726,921	3,359,952	38,090,763	871,155	38,961,918	–	38,961,918
Intersegment sales and transfers	–	–	–	–	2,180,862	2,180,862	(2,180,862)	–
Total	23,003,889	11,726,921	3,359,952	38,090,763	3,052,017	41,142,780	(2,180,862)	38,961,918
Segment income	15,670,806	8,203,103	2,763,923	26,637,833	584,576	27,222,409	2,794	27,225,204

Notes:1. Other is not a reportable segment and mainly includes businesses related to ready-made products in the men's business and manufacturing subsidiaries.
2. Details of adjustments are as follows:
Segment profits

(Thousands of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Intersegment eliminations*	(8,110)	2,794
Total	(8,110)	2,794

*Intersegment eliminations refers to the elimination of inventory asset adjustments related to intersegment transactions, etc.
3. Segment profits have been adjusted to reconcile with gross profits on the consolidated financial statements.
4. Assets and liabilities have not been shown, as they are not allocated to each segment.
5. Adjustments to reconcile total segment income for reportable segments with operating income in the consolidated financial statements

(Thousands of yen)

Income	Year ended March 31, 2016	Year ended March 31, 2017
Total for reportable segments	28,230,477	26,637,833
Other*[1]	897,274	584,576
Total	29,127,751	27,222,409
Adjustment*[2]	(8,110)	2,794
Gross profit in consolidated financial statements	29,119,641	27,225,204
Selling, general and administrative expenses	25,662,264	24,408,632
Operating income in consolidated financial statements	3,457,377	2,816,572

(Per share information)

(Yen)

Year ended March 31, 2016		Year ended March 31, 2017	
Net assets per share	712.77	Net assets per share	736.09
Net income per share	52.37	Net income per share	42.09
Fully diluted net income per share	52.16	Fully diluted net income per share	42.00

Note: The basis for calculating net income per share and fully diluted net income per share is as follows:

	Year ended March 31, 2016	Year ended March 31, 2017
Net income per share		
Net income attributable to owners of the parent company (thousands of yen)	1,731,937	1,394,380
Amounts not attributable to owners of common stock (thousands of yen)	–	–
Net income attributable to owners of the parent company associated with common stock (thousands of yen)	1,731,937	1,394,380
Average number of shares of common stock during fiscal year (thousands of share)	33,070	33,131
Fully diluted net income per share		
Adjustment to net income attributable to owners of the parent company (thousands of yen)	–	–
Increase in number of shares of common stock (thousands of share)	132	67
(of which, subscription rights to shares)	(132)	(67)
Summary of residual shares not included in calculations of fully diluted net income per share due to no dilutive effect	–	–

Note: The average number of shares of common stock during fiscal year is calculated based on the deduction of the treasury stocks (191,395 shares as of March 31, 2016 and 278,050 shares as of March 31, 2017) held by the Trust & Custody Services Bank, Ltd. (trust account) and others.

(Significant subsequent events)

There is no related information.

(Disclosure omissions)

Notes related to consolidated statements of comprehensive income, consolidated statements of changes in net assets, lease transactions, related party information, tax effect accounting, financial instruments, investment securities, derivative transactions, retirement benefits, stock options, etc., business combinations, etc., asset retirement obligations, and leased real estate have been omitted, as they have been judged to be immaterial to disclosures for these consolidated financial results.