Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2017 [J-GAAP]

January 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	
Representative:	Yoshikata Igarashi, Chairman and President		
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Scheduled date of filing the quarterly financial report:		February 14, 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 third quarter ended December 31, 2016 (April 1, 2016 – December 31, 2016)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2016	28,667	(5.5)	2,248	(15.1)	2,391	(13.2)	1,510	0.0
Nine months ended December 31, 2015	30,322	1.4	2,649	3.6	2,756	0.7	1,509	(6.7)

Note: Comprehensive income: Nine months ended December 31, 2016: ¥1,023 million (-30.3%)
Nine months ended December 31, 2015: ¥1,469 million (-7.7%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended December 31, 2016	45.58	45.49
Nine months ended December 31, 2015	45.67	45.47

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2016	39,665	24,126	60.7	726.89
As of March 31, 2016	40,734	23,653	58.0	712.77

(Reference) Equity capital: As of December 31, 2016: ¥24,086 million As of March 31, 2016: ¥23,608 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, 2016	—	14.00	—	14.00	28.00
Year ending March 31, 2017	—	14.00	—		
Year ending March 31, 2017 (Forecast)				14.00	28.00

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

3. Consolidated financial forecast for the fiscal year ending March 31, 2017 (April 1, 2016 – March 31, 2017)

(Percentage figures show changes from the same period in 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	40,560	0.1	3,500	1.3	3,482	0.7	2,050	18.4	61.90

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.: Yes
2) Changes in accounting policies other than 1): No
3) Changes in accounting estimates: No
4) Restatement of revisions: No

Note: For more details, please refer to page 3 of the supplementary materials, “2. Summary (notes) information, (3) Changes in accounting policies, accounting estimates and restatement of revisions.”

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

1) Number of shares issued and outstanding (including treasury shares)	As of December 31, 2016	34,393,200	shares	As of March 31, 2016	34,393,200	shares
2) Number of treasury shares	As of December 31, 2016	1,256,938	shares	As of March 31, 2016	1,271,238	shares
3) Average number of shares issued and outstanding in each period	Nine months ended December 31, 2016	33,128,803	shares	Nine months ended December 31, 2015	33,059,054	shares

* **Disclosures related to the implementation of audit procedures**

The audit procedures for these quarterly consolidated financial statements in accordance with the Financial Instruments and Exchange Act had not been completed at the time of disclosure.

* **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.”

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1. Analysis of operating results and financial position

(1) Analysis of operating results

Operating results for the first nine months of fiscal 2017

In the first nine months of fiscal 2017 (April – December 2016), the Japanese economy showed signs of improvement in areas such as employment conditions. However, the outlook remained uncertain due to continued instability in share prices and exchange rates caused by the impacts of a slowdown in emerging economies, the UK’s exit from the EU (Brexit), and the start of the Trump administration, amid continued sluggishness in consumer spending.

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 JULLIA OLGER business, which sells ladies’ ready-made wigs.

However, for the first nine months of the fiscal year, net sales declined 5.5% year on year to ¥28,667 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 15.1% year on year to ¥2,248 million, ordinary income fell 13.2% to ¥2,391 million and net income attributable to owners of the parent company increased 0.0% to ¥1,510 million.

< Men’s business >

Sales in the men’s business declined 3.0% year on year to ¥16,972 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 for new customers.

< Ladies’ business >

Sales in the ladies’ business declined 9.7% year on year to ¥8,698 million. The business implemented a range of initiatives, such as efficiently holding shows and trial fitting events, enhancing the skills of sales staff, strengthening customer follow-up support in stores and encouraging customers to visit stores more regularly, but sales for new customers were affected by increased competition from rival companies and other factors.

< Ladies’ ready-made wigs business >

Sales in the JULLIA OLGER business, which sells ladies’ ready-made wigs, fell 3.6% year on year to ¥2,438 million, mainly due to a drop in the number of marketing events held.

(2) Analysis of financial position

1) Assets, liabilities and net assets

(Assets)

As of the end of the third quarter, total assets were ¥39,665 million, a decline of ¥1,069 million from the end of the previous fiscal year. Current assets decreased ¥3,164 million, mainly due to declines in cash and deposits, accounts receivable – trade and securities, while non-current assets rose ¥2,095 million, primarily reflecting an increase in investment securities.

(Liabilities)

As of the end of the third quarter, liabilities totaled ¥15,539 million, a decline of ¥1,542 million from the end of the previous fiscal year. That mainly reflected a drop of ¥1,368 million in current liabilities due to declines in accounts payable – other, income taxes payable and other items.

(Net Assets)

As of the end of the third quarter, net assets were ¥24,126 million, an increase of ¥473 million from the end of the previous fiscal year. This reflected an increase of ¥957 million in retained earnings, and a decrease of ¥521 million in foreign currency translation adjustment.

2) Cash flow position

As of the end of the third quarter, cash and cash equivalents (cash) totaled ¥13,563 million, a decrease of ¥2,509 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 ¥2,076 million, compared with ¥1,775 million in the same period a year earlier. That mainly reflected income before income taxes of ¥2,333 million, depreciation of ¥918 million, increase in net defined benefit liability of ¥153 million, decrease in notes and accounts receivable – trade of ¥220 million, and increase in advances received of ¥478 million, versus decrease in provision for bonuses of ¥383 million and income taxes paid of ¥1,290 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥3,170 million, compared with ¥1,422 million in the same period a year earlier. That mainly reflected purchase of property, plant and equipment of ¥691 million, purchase of intangible assets of ¥317 million and purchase of investment securities ¥2,000 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥1,269 million, compared with ¥1,407 million in the same period a year earlier. That mainly reflected repayments of long-term loans payable of ¥301 million, repayments of lease obligations of ¥43 million and dividends paid of ¥924 million.

(3) Qualitative information on consolidated financial forecasts

The Company has not changed its forecasts for fiscal 2017, ending March 31, 2017, since announcing revised forecasts on September 15, 2016. For more details, please see the release “Notice of Revisions to Earnings Forecasts” (Japanese only), dated the same day.

2. Summary (notes) information

(1) Significant changes to subsidiaries during the period

There is no related information.

(2) Application of the specific accounting methods for preparing the quarterly consolidated financial statements

There is no related information.

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

Changes in accounting policies

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

Effective from the first quarter of the current fiscal year, 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 first quarter 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 first quarter of the current fiscal year.

As a result, at the start of the first quarter, 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 first quarter of the current fiscal year. 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 third quarter of the current fiscal year.

3. Going concern assumptions, etc.

There is no related information.

4. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

(Thousands of yen)

	As of March 31, 2016	As of December 31, 2016
Assets		
Current assets		
Cash and deposits	14,050,920	13,551,689
Accounts receivable – trade	3,024,585	2,784,122
Securities	2,021,488	127,969
Merchandise and finished goods	1,959,211	1,912,757
Work in process	122,470	109,537
Raw materials and supplies	1,821,481	1,724,811
Others	1,472,486	1,094,241
Allowance for doubtful accounts	(5,242)	(2,458)
Total current assets	24,467,400	21,302,671
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,973,952	6,767,960
Others, net	4,228,956	4,119,497
Total property, plant and equipment	11,202,909	10,887,457
Intangible assets		
Others	934,930	932,064
Total intangible assets	934,930	932,064
Investments and other assets		
Others	4,194,263	6,607,893
Allowance for doubtful accounts	(64,848)	(64,578)
Total investments and other assets	4,129,414	6,543,314
Total non-current assets	16,267,254	18,362,836
Total assets	40,734,655	39,665,508

(Thousands of yen)

	As of March 31, 2016	As of December 31, 2016
Liabilities		
Current liabilities		
Accounts payable – trade	314,102	283,384
Current portion of long-term loans payable	401,364	401,364
Accounts payable – other	1,921,385	1,237,738
Income taxes payable	681,130	29,930
Advances received	4,288,745	4,767,566
Provision for bonuses	815,827	431,753
Provision for directors' bonuses	150,000	112,500
Provision for product warranties	46,231	48,926
Provision for point card certificates	81,868	94,792
Others	1,332,435	1,256,630
Total current liabilities	10,033,090	8,664,586
Non-current liabilities		
Long-term loans payable	1,200,404	899,381
Provision for directors' retirement benefits	1,283,252	1,197,314
Net defined benefit liability	3,203,880	3,357,339
Asset retirement obligations	1,217,011	1,251,950
Others	143,580	168,461
Total non-current liabilities	7,048,128	6,874,447
Total liabilities	17,081,219	15,539,034
Net assets		
Shareholders' equity		
Capital stock	3,667,245	3,667,245
Capital surplus	3,556,426	3,557,324
Retained earnings	16,815,192	17,773,092
Treasury shares	(502,610)	(496,956)
Total shareholders' equity	23,536,254	24,500,706
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,644	(8,103)
Foreign currency translation adjustment	368,615	(152,903)
Remeasurements of defined benefit plans	(300,275)	(253,426)
Total accumulated other comprehensive income	71,984	(414,434)
Subscription rights to shares	31,570	26,572
Non-controlling interests	13,626	13,629
Total net assets	23,653,435	24,126,474
Total liabilities and net assets	40,734,655	39,665,508

(2) Quarterly consolidated statements of income and comprehensive income

(Quarterly consolidated statements of income)

(Thousands of yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net sales	30,322,589	28,667,586
Cost of sales	8,704,236	8,656,701
Gross profit	21,618,352	20,010,884
Selling, general and administrative expenses	18,968,743	17,761,977
Operating income	2,649,609	2,248,907
Non-operating income		
Interest income	88,196	87,286
Foreign exchange gains	6,802	74,829
Others	72,480	64,789
Total non-operating income	167,478	226,906
Non-operating expenses		
Interest expenses	9,333	7,315
Guarantee commission	30,259	41,442
Others	20,576	35,247
Total non-operating expenses	60,169	84,005
Ordinary income	2,756,918	2,391,807
Extraordinary income		
Gain on sales of non-current assets	416	271
Total extraordinary income	416	271
Extraordinary losses		
Loss on retirement of non-current assets	39,865	43,768
Impairment loss	—	14,457
Total extraordinary losses	39,865	58,225
Income before income taxes	2,717,470	2,333,853
Income taxes – current	939,329	666,537
Income taxes – deferred	266,929	156,159
Total income taxes	1,206,259	822,697
Net income	1,511,211	1,511,155
Net income attributable to non-controlling interests	1,440	1,034
Net income attributable to owners of the parent company	1,509,770	1,510,121

(Quarterly consolidated statements of comprehensive income)

(Thousands of yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net income	1,511,211	1,511,155
Other comprehensive income		
Valuation difference on available-for-sale securities	(7,253)	(11,747)
Foreign currency translation adjustment	(88,416)	(522,550)
Remeasurements of defined benefit plans	53,992	46,848
Total other comprehensive income	(41,677)	(487,449)
Comprehensive income	1,469,533	1,023,705
(Comprehensive income attributable to)		
Owners of the parent company	1,468,366	1,023,702
Non-controlling interests	1,166	3

(3) Quarterly consolidated statements of cash flows

(Thousands of yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Cash flows from operating activities		
Income before income taxes	2,717,470	2,333,853
Depreciation	907,545	918,459
Impairment loss	—	14,457
Increase (decrease) in allowance for doubtful accounts	(7,949)	(3,053)
Increase (decrease) in provision for bonuses	(402,581)	(383,468)
Increase (decrease) in provision for directors' bonuses	(37,500)	(37,500)
Increase (decrease) in provision for product warranties	15,706	2,695
Increase (decrease) in provision for point card certificates	15,684	12,924
Increase (decrease) in provision for directors' retirement benefits	37,965	(85,937)
Increase (decrease) in net defined benefit liability	183,088	153,459
Interest income	(88,196)	(87,286)
Interest expenses	9,333	7,315
Loss on retirement of non-current assets	39,865	43,768
Loss (gain) on sales of non-current assets	(416)	(271)
Decrease (increase) in notes and accounts receivable – trade	751,376	220,325
Decrease (increase) in inventories	(438,103)	72,921
Increase (decrease) in notes and accounts payable – trade	(8,387)	(19,233)
Increase (decrease) in advances received	(89,198)	478,821
Others	72,217	(366,700)
Subtotal	3,677,920	3,275,549
Interest income received	95,234	97,976
Interest expenses paid	(9,186)	(7,169)
Income taxes paid	(1,988,783)	(1,290,283)
Net cash provided by (used in) operating activities	1,775,184	2,076,073
Cash flows from investing activities		
Payments into time deposits	—	(101,120)
Purchase of property, plant and equipment	(1,189,804)	(691,224)
Proceeds from sales of property, plant and equipment	416	271
Purchase of intangible assets	(238,610)	(317,588)
Purchase of investment securities	—	(2,000,000)
Collection of long-term loans receivable	350	315
Payments for lease and guarantee deposits	(66,301)	(48,437)
Proceeds from collection of lease and guarantee deposits	58,706	67,167
Others	12,405	(80,116)
Net cash provided by (used in) investing activities	(1,422,837)	(3,170,732)
Cash flows from financing activities		
Repayments of long-term loans payable	(301,023)	(301,023)
Repayments of lease obligations	(156,053)	(43,601)
Proceeds from issuance of common shares	5,220	—
Cash dividends paid	(955,855)	(924,841)
Net cash provided by (used in) financing activities	(1,407,711)	(1,269,465)
Effect of exchange rate change on cash and cash equivalents	(33,822)	(145,155)
Net increase (decrease) in cash and cash equivalents	(1,089,185)	(2,509,279)
Cash and cash equivalents at beginning of period	16,309,599	16,072,409
Cash and cash equivalents at end of period	15,220,413	13,563,129

(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.