



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

October 28, 2016

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: November 14, 2016
 Scheduled date to start dividends distribution: December 1, 2016
 Supplementary quarterly materials prepared: No
 Explanation meeting for quarterly financial results: Yes (for institutional investors and analysts)

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

1. Consolidated results for the second quarter ended September 30, 2016 (April 1, 2016 – September 30, 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	%
Six months ended September 30, 2016	18,711	(5.7)	1,129	(33.8)	1,004	(43.5)	629	(34.5)
Six months ended September 30, 2015	19,842	1.9	1,705	(13.0)	1,778	(13.4)	960	(23.4)

Note: Comprehensive income: Six months ended September 30, 2016: ¥416 million (-59.9%)
 Six months ended September 30, 2015: ¥1,039 million (-10.4%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2016	19.00	18.96
Six months ended September 30, 2015	29.06	28.93

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2016	39,764	23,982	60.2	722.58
As of March 31, 2016	40,734	23,653	58.0	712.77

(Reference) Equity capital: As of September 30, 2016: ¥23,942 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 September 30, 2016	34,393,200 shares	As of March 31, 2016	34,393,200 shares
2) Number of treasury shares	As of September 30, 2016	1,258,638 shares	As of March 31, 2016	1,271,238 shares
3) Average number of shares issued and outstanding in each period	Six months ended September 30, 2016	33,125,726 shares	Six months ended September 30, 2015	33,049,690 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 six months of fiscal 2017

In the first six months of fiscal 2017 (April – September 2016), the Japanese economy showed signs of improvement in areas such as employment conditions. However, the economic outlook remained uncertain due to instability in share prices and exchange rates, concerns about a downturn in the global economy and persistently sluggish 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 regularly 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 OLGIER business, which sells ladies' ready-made wigs.

However, for the first six months of the fiscal year, net sales declined 5.7% year on year to ¥18,711 million due to the impact of sluggish 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. As a result, operating income declined 33.8% year on year to ¥1,129 million, ordinary income fell 43.5% to ¥1,004 million and net income attributable to owners of the parent company fell 34.5% to ¥629 million.

< Men's business >

Sales in the men's business declined 2.8% year on year to ¥11,200 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 of custom-made wigs.

< Ladies' business >

Sales in the ladies' business declined 10.3% year on year to ¥5,752 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 were affected by increased competition from rival companies and other factors.

< Ladies' ready-made wigs business >

Sales in the JULIA OLGIER business, which sells ladies' ready-made wigs, fell 5.5% year on year to ¥1,395 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 second quarter, total assets were ¥39,764 million, a decline of ¥970 million from the end of the previous fiscal year. Current assets decreased ¥3,137 million, mainly due to declines in cash and deposits, accounts receivable – trade and securities, while non-current assets rose ¥2,166 million, primarily reflecting an increase in investment securities.

(Liabilities)

As of the end of the second quarter, liabilities totaled ¥15,781 million, a decline of ¥1,299 million from the end of the previous fiscal year. That mainly reflected a drop of ¥1,158 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 second quarter, net assets were ¥23,982 million, an increase of ¥328 million from the end of the previous fiscal year, mainly due to an increase of ¥541 million in retained earnings.

2) Cash flow position

As of the end of the second quarter, cash and cash equivalents (cash) totaled ¥13,707 million, a decrease of ¥2,364 million compared with the end of the previous fiscal year. The Company's cash flow position and factors behind changes in cash flows were as follows:

(Cash flows from operating activities)

Operating activities provided net cash of ¥1,423 million, compared with ¥1,152 million in the same period a year earlier. That mainly reflected income before income taxes of ¥961 million, depreciation of ¥607 million, and decrease in notes and

accounts receivable – trade of ¥575 million, versus payments for other operating activity of ¥237 million and income taxes paid of ¥543 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥2,942 million, compared with ¥905 million in the same period a year earlier. That mainly reflected purchase of property, plant and equipment of ¥519 million, purchase of intangible assets of ¥298 million and purchase of investment securities ¥2,000 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥702 million, compared with ¥805 million in the same period a year earlier. That mainly reflected repayments of long-term loans payable of ¥200 million, repayments of lease obligations of ¥38 million and dividends paid of ¥462 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 second 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 September 30, 2016
Assets		
Current assets		
Cash and deposits	14,050,920	13,808,593
Accounts receivable – trade	3,024,585	2,430,273
Securities	2,021,488	—
Merchandise and finished goods	1,959,211	1,903,460
Work in process	122,470	116,769
Raw materials and supplies	1,821,481	1,720,817
Others	1,472,486	1,353,280
Allowance for doubtful accounts	(5,242)	(3,346)
Total current assets	24,467,400	21,329,847
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,973,952	6,783,833
Others, net	4,228,956	4,165,380
Total property, plant and equipment	11,202,909	10,949,213
Intangible assets		
Others	934,930	961,135
Total intangible assets	934,930	961,135
Investments and other assets		
Others	4,194,263	6,588,525
Allowance for doubtful accounts	(64,848)	(64,668)
Total investments and other assets	4,129,414	6,523,856
Total non-current assets	16,267,254	18,434,205
Total assets	40,734,655	39,764,052

(Thousands of yen)

	As of March 31, 2016	As of September 30, 2016
Liabilities		
Current liabilities		
Accounts payable – trade	314,102	245,950
Current portion of long-term loans payable	401,364	401,364
Accounts payable – other	1,921,385	1,503,891
Income taxes payable	681,130	391,417
Advances received	4,288,745	4,286,122
Provision for bonuses	815,827	856,518
Provision for directors' bonuses	150,000	75,000
Provision for product warranties	46,231	51,851
Provision for point card certificates	81,868	88,901
Others	1,332,435	973,976
Total current liabilities	10,033,090	8,874,993
Non-current liabilities		
Long-term loans payable	1,200,404	999,722
Provision for directors' retirement benefits	1,283,252	1,185,807
Net defined benefit liability	3,203,880	3,298,551
Asset retirement obligations	1,217,011	1,235,905
Others	143,580	186,795
Total non-current liabilities	7,048,128	6,906,782
Total liabilities	17,081,219	15,781,776
Net assets		
Shareholders' equity		
Capital stock	3,667,245	3,667,245
Capital surplus	3,556,426	3,556,927
Retained earnings	16,815,192	17,356,309
Treasury shares	(502,610)	(497,628)
Total shareholders' equity	23,536,254	24,082,854
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,644	1,571
Foreign currency translation adjustment	368,615	127,063
Remeasurements of defined benefit plans	(300,275)	(269,042)
Total accumulated other comprehensive income	71,984	(140,408)
Subscription rights to shares	31,570	26,572
Non-controlling interests	13,626	13,257
Total net assets	23,653,435	23,982,276
Total liabilities and net assets	40,734,655	39,764,052

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

	(Thousands of yen)	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Net sales	19,842,089	18,711,359
Cost of sales	5,713,137	5,753,888
Gross profit	14,128,951	12,957,470
Selling, general and administrative expenses	12,423,015	11,828,427
Operating income	1,705,936	1,129,042
Non-operating income		
Interest income	60,059	54,699
Others	68,371	45,420
Total non-operating income	128,430	100,119
Non-operating expenses		
Interest expenses	6,379	5,037
Foreign exchange losses	—	166,447
Guarantee commission	34,535	24,253
Others	15,030	28,698
Total non-operating expenses	55,944	224,437
Ordinary income	1,778,422	1,004,725
Extraordinary income		
Gain on sales of non-current assets	420	279
Total extraordinary income	420	279
Extraordinary losses		
Loss on retirement of non-current assets	27,151	28,970
Impairment loss	—	14,041
Total extraordinary losses	27,151	43,011
Income before income taxes	1,751,690	961,993
Income taxes – current	675,719	287,541
Income taxes – deferred	113,909	44,576
Total income taxes	789,629	332,117
Net income	962,061	629,876
Net income attributable to non-controlling interests	1,493	421
Net income attributable to owners of the parent company	960,567	629,454

(Quarterly consolidated statements of comprehensive income)

	(Thousands of yen)	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Net income	962,061	629,876
Other comprehensive income		
Valuation difference on available-for-sale securities	(7,253)	(2,073)
Foreign currency translation adjustment	43,589	(242,342)
Remeasurements of defined benefit plans	41,531	31,232
Total other comprehensive income	77,866	(213,183)
Comprehensive income	1,039,927	416,693
(Comprehensive income attributable to)		
Owners of the parent company	1,038,395	417,061
Non-controlling interests	1,532	(368)

(3) Quarterly consolidated statements of cash flows

	(Thousands of yen)	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Cash flows from operating activities		
Income before income taxes	1,751,690	961,993
Depreciation	589,748	607,213
Impairment loss	—	14,041
Increase (decrease) in allowance for doubtful accounts	(7,858)	(2,075)
Increase (decrease) in provision for bonuses	3,627	40,987
Increase (decrease) in provision for directors' bonuses	(75,000)	(75,000)
Increase (decrease) in provision for product warranties	12,926	5,619
Increase (decrease) in provision for point card certificates	11,889	7,032
Increase (decrease) in provision for directors' retirement benefits	25,288	(97,445)
Increase (decrease) in net defined benefit liability	127,159	94,671
Interest income	(60,059)	(54,699)
Interest expenses	6,379	5,037
Loss on retirement of non-current assets	27,151	28,970
Loss (gain) on sales of non-current assets	(420)	(279)
Decrease (increase) in notes and accounts receivable – trade	1,100,365	575,935
Decrease (increase) in inventories	(263,638)	94,226
Increase (decrease) in notes and accounts payable – trade	(167,434)	(59,573)
Increase (decrease) in advances received	(208,072)	(2,622)
Others	(730,412)	(237,464)
Subtotal	2,143,332	1,906,570
Interest income received	61,108	64,524
Interest expenses paid	(6,281)	(4,939)
Income taxes paid	(1,045,375)	(543,009)
Net cash provided by (used in) operating activities	1,152,783	1,423,146
Cash flows from investing activities		
Payments into time deposits	—	(101,120)
Purchase of property, plant and equipment	(759,018)	(519,865)
Proceeds from sales of property, plant and equipment	420	279
Purchase of intangible assets	(154,450)	(298,540)
Purchase of investment securities	—	(2,000,000)
Collection of long-term loans receivable	240	210
Payments for lease and guarantee deposits	(62,449)	(27,376)
Proceeds from collection of lease and guarantee deposits	55,378	30,256
Others	13,933	(26,273)
Net cash provided by (used in) investing activities	(905,947)	(2,942,430)
Cash flows from financing activities		
Repayments of long-term loans payable	(200,682)	(200,682)
Repayments of lease obligations	(111,396)	(38,828)
Proceeds from issuance of common shares	1,800	—
Cash dividends paid	(495,336)	(462,958)
Net cash provided by (used in) financing activities	(805,615)	(702,468)
Effect of exchange rate change on cash and cash equivalents	15,838	(143,182)
Net increase (decrease) in cash and cash equivalents	(542,940)	(2,364,935)
Cash and cash equivalents at beginning of period	16,309,599	16,072,409
Cash and cash equivalents at end of period	15,766,658	13,707,473

(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.