



Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2016 [J-GAAP]

January 29, 2016

Name of listed company: ARTNATURE INC. Listed on: Tokyo Stock Exchange
 Securities code: 7823 URL: <http://www.artnature.co.jp/>
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Scheduled date of filing the quarterly financial report: February 15, 2016
 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, 2015 (April 1, 2015 – December 31, 2015)

(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, 2015 | 30,322 | 1.4 | 2,649 | 3.6 | 2,756 | 0.7 | 1,509 | (6.7) |
| Nine months ended December 31, 2014 | 29,889 | 3.5 | 2,556 | (37.4) | 2,736 | (34.0) | 1,618 | (32.2) |

Note: Comprehensive income: Nine months ended December 31, 2015: ¥1,469 million (-7.7%)
 Nine months ended December 31, 2014: ¥1,592 million (-35.2%)

| | Net income per share | Diluted net income per share |
|-------------------------------------|----------------------|------------------------------|
| | Yen | Yen |
| Nine months ended December 31, 2015 | 45.67 | 45.47 |
| Nine months ended December 31, 2014 | 49.03 | 48.75 |

Note: The Company conducted a 2-for-1 stock split of common shares with an effective date of November 1, 2014. Net income per share and diluted net income per share have been calculated assuming the stock split was conducted at the start of the previous fiscal year.

(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, 2015 | 39,448 | 23,532 | 59.5 | 709.57 |
| As of March 31, 2015 | 41,147 | 23,012 | 55.8 | 694.79 |

(Reference) Equity capital: As of December 31, 2015: ¥23,477 million

As of March 31, 2015: ¥22,960 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, 2015 | — | 25.00 | — | 15.00 | — |
| Year ending March 31, 2016 | — | 14.00 | — | | |
| Year ending March 31, 2016 (Forecast) | | | | 14.00 | 28.00 |

Notes: 1. Revisions to the most recently announced dividend forecast during the period: No

2. The Company conducted a 2-for-1 stock split of common shares with an effective date of November 1, 2014. Actual dividends per share prior to the stock split have been shown for the second quarter-end dividends for the year ended March 31, 2015.

3. Consolidated financial forecast for the fiscal year ending March 31, 2016 (April 1, 2015 – March 31, 2016)

(Percentage figures show changes from the same period in the previous year.)

| | Net sales | Operating income | Ordinary income | Net income attributable to owners | Net income per share |
|--|-----------|------------------|-----------------|-----------------------------------|----------------------|
|--|-----------|------------------|-----------------|-----------------------------------|----------------------|

| | | | | | | | of the parent company | | |
|-----------|-----------------|-----|-----------------|------|-----------------|-----|-----------------------|------|-------|
| Full year | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| | 45,090 | 9.2 | 4,580 | 13.3 | 4,643 | 8.9 | 2,789 | 23.9 | 84.43 |

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, 2015 | 34,376,400 shares | As of March 31, 2015 | 34,341,600 shares |
| 2) Number of treasury shares | As of December 31, 2015 | 1,288,838 shares | As of March 31, 2015 | 1,295,438 shares |
| 3) Average number of shares issued and outstanding in each period | Nine months ended December 31, 2015 | 33,059,054 shares | Nine months ended December 31, 2014 | 33,010,273 shares |

Note: The Company conducted a 2-for-1 stock split of common shares with an effective date of November 1, 2014. Number of outstanding shares (common stock) has been calculated assuming the stock split was conducted at the start of the previous fiscal year.

* **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

In the first nine months of fiscal 2016 (April – December 2015), the Japanese economy showed signs of recovery, supported by an improvement in corporate earnings and employment conditions on the back of the government's economic policies and monetary easing measures. However, the outlook remained uncertain due to concerns about a downturn overseas caused by the slowing Chinese economy, rising prices amid the weak yen, and sluggish consumer spending, with consumers remaining cautious since the hike to consumption tax.

Against this backdrop, ARTNATURE INC. and its consolidated subsidiaries (the ARTNATURE Group) targeted further 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.

As a result, for the first nine months of fiscal 2016, the Group reported net sales of ¥30,322 million, up 1.4% year on year. Regarding profit, despite a higher cost of sales mainly attributable to the yen's depreciation, containment of selling, general and administrative expenses lifted operating income 3.6% year on year to ¥2,649 million, and ordinary income 0.7% to ¥2,756 million. However, due to the absence of an extraordinary income posted in the same period of the previous fiscal year, net income attributable to owners of the parent company for the quarter declined 6.7% to ¥1,509 million.

< Men's business >

Sales in the men's business rose 1.8% year on year to ¥17,499 million due to a number of 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 raise customer satisfaction.

< Ladies' business >

Sales in the ladies' business remained almost unchanged from the same period of previous fiscal year at ¥9,631 million (up 0.0%). This was despite efforts to improve customer satisfaction through improvements to the skills of sales staff, as well as initiatives to enhance customer follow-up support in stores and encourage customers to visit stores more regularly.

< Ladies' ready-made wigs business >

Sales in the JULIA OLGIER business, which sells ladies' ready-made wigs, declined 0.2% year on year to ¥2,528 million, mainly due to sluggish sales at existing stores.

(2) Analysis of financial position

1) Assets, liabilities and net assets

(Assets)

As of the end of the third quarter, total assets were ¥39,448 million, a drop of ¥1,698 million from the end of the previous fiscal year. Current assets decreased ¥2,060 million, mainly due to declines in cash and deposits and notes and accounts receivable – trade, while non-current assets rose ¥361 million, primarily reflecting an increase in property, plant and equipment.

(Liabilities)

As of the end of the third quarter, liabilities totaled ¥15,915 million, a decline of ¥2,218 million from the end of the previous fiscal year. This mainly reflected a drop of ¥2,175 million in current liabilities, such as accounts payable – other, income taxes payable and provision for bonuses.

(Net Assets)

As of the end of the third quarter, net assets totaled ¥23,532 million, an increase of ¥519 million from the end of the previous fiscal year. This primarily reflected an increase of ¥551 million in retained earnings.

2) Cash flow position

As of the end of the third quarter, cash and cash equivalents (cash) totaled ¥15,220 million, a decrease of ¥1,089 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 ¥1,775 million, compared with ¥1,664 million in the same period a year earlier. This mainly reflected income before income taxes and minority interests of ¥2,717 million, depreciation of ¥907 million, increase in net defined benefit liability of ¥183 million and decrease in notes and accounts receivable – trade of ¥751 million,

versus decrease in provision for bonuses of ¥402 million, increase in inventories of ¥438 million, decrease in advances received of ¥89 million and income taxes paid of ¥1,988 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥1,422 million, compared with ¥1,933 million in the same period a year earlier. This primarily reflected purchase of property, plant and equipment of ¥1,189 million and purchase of intangible assets of ¥238 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥1,407 million, compared with ¥1,087 million in the same period a year earlier. This mainly reflected repayments of long-term loans payable of ¥301 million, repayments of lease obligations of ¥156 million and cash dividends paid of ¥955 million.

(3) Qualitative information on consolidated financial forecasts

The full-year financial forecasts announced on May 14, 2015 are unchanged.

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

(Application of Accounting Standard for Business Combinations, etc.)

The Company has applied the “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013) and the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013) from the first quarter of the current fiscal year. As a result, the accounting method was changed to record the difference arising from changes in the equity in subsidiaries under ongoing control of the Company as capital surplus, and acquisition-related costs as expenses for the fiscal year in which they are incurred. In addition, with respect to any business combination entered into on or after the first day of the first quarter of the current fiscal year, the accounting method was changed to reflect adjustments to the allocation of acquisition cost under provisional accounting treatment on the consolidated financial statements of the quarterly financial period in which the relevant business combinations became or will become effective. Furthermore, the presentation method for “net income” has been changed, and references to “minority interests” have been changed to “non-controlling interest.” To reflect these changes, the Company has reclassified its quarterly and full-year consolidated financial statements for the third quarter of the previous fiscal year and the previous fiscal year.

The Company has applied the Accounting Standard for Business Combinations and the other standards in accordance with transitional provisions in paragraph 58-2(4) of the Accounting Standard for Business Combinations, paragraph 44-5(4) of the Accounting Standard for Consolidated Financial Statements and paragraph 57-4 (4) of the Accounting Standard for Business Divestitures, prospectively at the beginning of the first quarter of the current fiscal year.

The application of the Accounting Standard for Business Combinations and the other standards had no impact on consolidated financial statements 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, 2015 | As of December 31, 2015 |
| Assets | | |
| Current assets | | |
| Cash and deposits | 14,288,860 | 13,199,025 |
| Accounts receivable – trade | 3,794,180 | 3,037,438 |
| Securities | 2,020,739 | 2,021,387 |
| Merchandise and finished goods | 1,918,655 | 1,981,909 |
| Work in process | 168,209 | 100,675 |
| Raw materials and supplies | 1,336,416 | 1,758,479 |
| Others | 1,719,011 | 1,079,159 |
| Allowance for doubtful accounts | (12,223) | (4,623) |
| Total current assets | 25,233,850 | 23,173,452 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 6,244,383 | 7,087,613 |
| Others, net | 4,881,538 | 4,258,530 |
| Total property, plant and equipment | 11,125,921 | 11,346,144 |
| Intangible assets | | |
| Others | 734,578 | 820,663 |
| Total intangible assets | 734,578 | 820,663 |
| Investments and other assets | | |
| Others | 4,115,763 | 4,170,514 |
| Allowance for doubtful accounts | (62,888) | (62,538) |
| Total investments and other assets | 4,052,874 | 4,107,975 |
| Total non-current assets | 15,913,375 | 16,274,784 |
| Total assets | 41,147,225 | 39,448,236 |

| | (Thousands of yen) | |
|---|-------------------------|----------------------------|
| | As of March 31, 2015 | As of December 31, 2015 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable – trade | 354,757 | 342,970 |
| Current portion of long-term loans payable | 400,320 | 401,364 |
| Accounts payable – other | 1,891,436 | 1,322,973 |
| Income taxes payable | 1,136,133 | 90,252 |
| Advances received | 4,585,853 | 4,675,052 |
| Provision for bonuses | 815,798 | 412,959 |
| Provision for directors' bonuses | 150,000 | 112,500 |
| Provision for product warranties | 31,575 | 47,282 |
| Provision for point card certificates | 65,686 | 81,370 |
| Others | 1,892,593 | 1,662,333 |
| Total current liabilities | 11,324,154 | 9,149,058 |
| Non-current liabilities | | |
| Long-term loans payable | 1,602,812 | 1,300,745 |
| Provision for directors' retirement benefits | 1,232,609 | 1,270,574 |
| Net defined benefit liability | 2,687,741 | 2,871,177 |
| Asset retirement obligations | 1,144,288 | 1,209,288 |
| Others | 142,753 | 114,999 |
| Total non-current liabilities | 6,810,205 | 6,766,784 |
| Total liabilities | 18,134,359 | 15,915,842 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 3,663,375 | 3,665,985 |
| Capital surplus | 3,552,020 | 3,554,776 |
| Retained earnings | 16,041,854 | 16,593,025 |
| Treasury shares | (512,178) | (509,568) |
| Total shareholders' equity | 22,745,072 | 23,304,218 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 12,342 | 5,088 |
| Foreign currency translation adjustment | 365,565 | 277,423 |
| Remeasurements of defined benefit plans | (162,849) | (108,857) |
| Total accumulated other comprehensive income | 215,058 | 173,654 |
| Subscription rights to shares | 41,650 | 38,901 |
| Non-controlling interests | 11,086 | 15,618 |
| Total net assets | 23,012,866 | 23,532,393 |
| Total liabilities and net assets | 41,147,225 | 39,448,236 |

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

| | (Thousands of yen) | |
|---|--|--|
| | Nine months ended December 31, 2014 | Nine months ended December 31, 2015 |
| Net sales | 29,889,811 | 30,322,589 |
| Cost of sales | 8,117,018 | 8,704,236 |
| Gross profit | 21,772,793 | 21,618,352 |
| Selling, general and administrative expenses | 19,215,820 | 18,968,743 |
| Operating income | 2,556,973 | 2,649,609 |
| Non-operating income | | |
| Interest income | 63,706 | 88,196 |
| Gain on valuation of investment securities | 61,564 | — |
| Others | 116,112 | 79,282 |
| Total non-operating income | 241,383 | 167,478 |
| Non-operating expenses | | |
| Interest expenses | — | 9,333 |
| Guarantee commission | 46,463 | 30,259 |
| Others | 15,067 | 20,576 |
| Total non-operating expenses | 61,530 | 60,169 |
| Ordinary income | 2,736,826 | 2,756,918 |
| Extraordinary income | | |
| Gain on sales of non-current assets | 902 | 416 |
| Compensation income | 112,018 | — |
| Total extraordinary income | 112,920 | 416 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 24,848 | 39,865 |
| Total extraordinary losses | 24,848 | 39,865 |
| Income before income taxes and minority interests | 2,824,898 | 2,717,470 |
| Income taxes – current | 958,908 | 939,329 |
| Income taxes – deferred | 245,558 | 266,929 |
| Total income taxes | 1,204,467 | 1,206,259 |
| Net income | 1,620,431 | 1,511,211 |
| Net income attributable to non-controlling interests | 1,795 | 1,440 |
| Net income attributable to owners of the parent company | 1,618,636 | 1,509,770 |

(Quarterly consolidated statements of comprehensive income)

| | (Thousands of yen) | |
|---|--|--|
| | Nine months ended December 31, 2014 | Nine months ended December 31, 2015 |
| Net income | 1,620,431 | 1,511,211 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 8,411 | (7,253) |
| Foreign currency translation adjustment | (73,289) | (88,416) |
| Remeasurements of defined benefit plans | 37,434 | 53,992 |
| Total other comprehensive income | (27,443) | (41,677) |
| Comprehensive income | 1,592,988 | 1,469,533 |
| (Comprehensive income attributable to) | | |
| Owners of the parent company | 1,591,334 | 1,468,366 |
| Non-controlling interests | 1,654 | 1,166 |

(3) Quarterly consolidated statements of cash flows

| | (Thousands of yen) | |
|--|--|--|
| | Nine months ended December 31, 2014 | Nine months ended December 31, 2015 |
| Cash flows from operating activities | | |
| Income before income taxes and minority interests | 2,824,898 | 2,717,470 |
| Depreciation | 709,821 | 907,545 |
| Increase (decrease) in allowance for doubtful accounts | (1,433) | (7,949) |
| Increase (decrease) in provision for bonuses | (494,088) | (402,581) |
| Increase (decrease) in provision for directors' bonuses | (37,500) | (37,500) |
| Increase (decrease) in provision for product warranties | (2,446) | 15,706 |
| Increase (decrease) in provision for point card certificates | 5,535 | 15,684 |
| Increase (decrease) in provision for directors' retirement benefits | 17,966 | 37,965 |
| Increase (decrease) in net defined benefit liability | 147,384 | 183,088 |
| Interest income | (63,706) | (88,196) |
| Interest expenses | — | 9,333 |
| Loss on retirement of non-current assets | 24,848 | 39,865 |
| Loss (gain) on sales of non-current assets | (902) | (416) |
| Loss (gain) on valuation of investment securities | (61,564) | 6,827 |
| Decrease (increase) in notes and accounts receivable – trade | 984,399 | 751,376 |
| Decrease (increase) in inventories | (251,284) | (438,103) |
| Increase (decrease) in notes and accounts payable – trade | (136,284) | (8,387) |
| Increase (decrease) in advances received | 206,669 | (89,198) |
| Others | (5,523) | 65,390 |
| Subtotal | 3,866,788 | 3,677,920 |
| Interest income received | 72,898 | 95,234 |
| Interest expenses paid | — | (9,186) |
| Income taxes paid | (2,274,792) | (1,988,783) |
| Net cash provided by (used in) operating activities | 1,664,893 | 1,775,184 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (1,504,725) | (1,189,804) |
| Proceeds from sales of property, plant and equipment | 1,525 | 416 |
| Purchase of intangible assets | (334,858) | (238,610) |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | (19,971) | — |
| Collection of long-term loans receivable | 508 | 350 |
| Payments for lease and guarantee deposits | (173,827) | (66,301) |
| Proceeds from collection of lease and guarantee deposits | 93,922 | 58,706 |
| Others | 3,609 | 12,405 |
| Net cash provided by (used in) investing activities | (1,933,816) | (1,422,837) |
| Cash flows from financing activities | | |
| Repayments of long-term loans payable | — | (301,023) |
| Repayments of lease obligations | (182,475) | (156,053) |
| Proceeds from issuance of common shares | 720 | 5,220 |
| Cash dividends paid | (905,331) | (955,855) |
| Net cash provided by (used in) financing activities | (1,087,087) | (1,407,711) |
| Effect of exchange rate change on cash and cash equivalents | 43,423 | (33,822) |
| Net increase (decrease) in cash and cash equivalents | (1,312,586) | (1,089,185) |
| Cash and cash equivalents at beginning of period | 16,710,133 | 16,309,599 |
| Cash and cash equivalents at end of period | 15,397,546 | 15,220,413 |

(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.