



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

October 30, 2015

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: November 13, 2015
 Scheduled date to start dividends distribution: December 1, 2015
 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, 2015 (April 1, 2015 – September 30, 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	%
Six months ended September 30, 2015	19,842	1.9	1,705	(13.0)	1,778	(13.4)	960	(23.4)
Six months ended September 30, 2014	19,477	4.1	1,959	(30.1)	2,052	(27.5)	1,254	(22.5)

Note: Comprehensive income: Six months ended September 30, 2015: ¥1,039 million (-10.4%)
 Six months ended September 30, 2014: ¥1,160 million (-31.4%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2015	29.06	28.93
Six months ended September 30, 2014	38.00	37.78

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 September 30, 2015	39,865	23,558	59.0	710.95
As of March 31, 2015	41,147	23,012	55.8	694.79

(Reference) Equity capital: As of September 30, 2015: ¥23,507 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 of the parent company		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	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 September 30, 2015	34,353,600 shares	As of March 31, 2015	34,341,600 shares
2) Number of treasury shares	As of September 30, 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	Six months ended September 30, 2015	33,049,690 shares	Six months ended September 30, 2014	33,002,274 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

Operating results for the first six months of the fiscal 2016

In the first six months of fiscal 2016 (April – September 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 sell ladies' ready-made wigs.

As a result, for the first six months of fiscal 2016, the Group reported net sales of ¥19,842 million, up 1.9% year on year. Operating income fell 13.0% year on year to ¥1,705 million, mainly due to the impact of higher cost of sales caused by the weak yen, as well as aggressive spending on sales promotion. Ordinary income declined 13.4% to ¥1,778 million and net income attributable to owners of the parent company fell 23.4% to ¥960 million.

< Men's business >

Sales in the men's business rose 0.5% year on year to ¥11,517 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 increased 3.0% year on year to ¥6,411 million. The growth in sales reflected 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 0.9% year on year to ¥1,475 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 second quarter, total assets were ¥39,865 million, a drop of ¥1,282 million from the end of the previous fiscal year. Current assets decreased ¥1,595 million, mainly due to declines in cash and deposits and notes and accounts receivable – trade, while non-current assets rose ¥313 million, primarily reflecting an increase in property, plant and equipment.

(Liabilities)

As of the end of the second quarter, liabilities totaled ¥16,306 million, a decline of ¥1,828 million from the end of the previous fiscal year. This mainly reflected a drop of ¥1,787 million in current liabilities, such as accounts payable – other, income taxes payable and advances received.

(Net Assets)

As of the end of the second quarter, net assets totaled ¥23,558 million, an increase of ¥546 million from the end of the previous fiscal year. This primarily reflected an increase of ¥464 million in retained earnings.

2) Cash flow position

As of the end of the second quarter, cash and cash equivalents (cash) totaled ¥15,766 million, a decrease of ¥542 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 ¥1,152 million, compared with ¥1,074 million in the same period a year earlier. This mainly reflected income before income taxes and minority interests of ¥1,751 million, depreciation of ¥589 million and decrease in notes and accounts receivable – trade of ¥1,100 million, versus increase in inventories of ¥263 million, decrease

in advances received of ¥208 million, income taxes paid of ¥1,045 million and other cash used of ¥734 million to support operating activities.

(Cash flows from investing activities)

Investing activities used net cash of ¥905 million, compared with ¥981 million in the same period a year earlier. This primarily reflected purchase of property, plant and equipment of ¥759 million, purchase of intangible assets of ¥154 million and payments for lease and guarantee deposits of ¥62 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥805 million, compared with ¥619 million in the same period a year earlier. This mainly reflected repayments of long-term loans payable of ¥200 million, repayments of lease obligations of ¥111 million and cash dividends paid of ¥495 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 second 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 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, 2015	As of September 30, 2015
Assets		
Current assets		
Cash and deposits	14,288,860	13,745,476
Accounts receivable – trade	3,794,180	2,694,898
Securities	2,020,739	2,021,181
Merchandise and finished goods	1,918,655	2,039,428
Work in process	168,209	136,601
Raw materials and supplies	1,336,416	1,514,651
Others	1,719,011	1,490,930
Allowance for doubtful accounts	(12,223)	(4,604)
Total current assets	25,233,850	23,638,564
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,244,383	7,029,910
Others, net	4,881,538	4,292,320
Total property, plant and equipment	11,125,921	11,322,231
Intangible assets		
Others	734,578	818,981
Total intangible assets	734,578	818,981
Investments and other assets		
Others	4,115,763	4,148,032
Allowance for doubtful accounts	(62,888)	(62,648)
Total investments and other assets	4,052,874	4,085,383
Total non-current assets	15,913,375	16,226,596
Total assets	41,147,225	39,865,160

(Thousands of yen)

	As of March 31, 2015	As of September 30, 2015
Liabilities		
Current liabilities		
Accounts payable – trade	354,757	187,676
Current portion of long-term loans payable	400,320	401,364
Accounts payable – other	1,891,436	1,502,914
Income taxes payable	1,136,133	736,546
Advances received	4,585,853	4,377,781
Provision for bonuses	815,798	819,439
Provision for directors' bonuses	150,000	75,000
Provision for product warranties	31,575	44,501
Provision for point card certificates	65,686	77,576
Others	1,892,593	1,313,913
Total current liabilities	11,324,154	9,536,713
Non-current liabilities		
Long-term loans payable	1,602,812	1,401,086
Provision for directors' retirement benefits	1,232,609	1,257,897
Net defined benefit liability	2,687,741	2,814,982
Asset retirement obligations	1,144,288	1,184,927
Others	142,753	110,644
Total non-current liabilities	6,810,205	6,769,538
Total liabilities	18,134,359	16,306,252
Net assets		
Shareholders' equity		
Capital stock	3,663,375	3,664,275
Capital surplus	3,552,020	3,553,066
Retained earnings	16,041,854	16,506,729
Treasury shares	(512,178)	(509,568)
Total shareholders' equity	22,745,072	23,214,503
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,342	5,088
Foreign currency translation adjustment	365,565	409,115
Remeasurements of defined benefit plans	(162,849)	(121,318)
Total accumulated other comprehensive income	215,058	292,885
Subscription rights to shares	41,650	38,901
Non-controlling interests	11,086	12,618
Total net assets	23,012,866	23,558,908
Total liabilities and net assets	41,147,225	39,865,160

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

	(Thousands of yen)	
	Six months ended September 30, 2014	Six months ended September 30, 2015
Net sales	19,477,575	19,842,089
Cost of sales	5,292,790	5,713,137
Gross profit	14,184,785	14,128,951
Selling, general and administrative expenses	12,225,048	12,423,015
Operating income	1,959,737	1,705,936
Non-operating income		
Interest income	48,669	60,059
Gain on valuation of investment securities	45,329	—
Others	41,142	68,371
Total non-operating income	135,141	128,430
Non-operating expenses		
Interest expenses	—	6,379
Guarantee commission	30,510	34,535
Others	11,668	15,030
Total non-operating expenses	42,179	55,944
Ordinary income	2,052,699	1,778,422
Extraordinary income		
Gain on sales of non-current assets	890	420
Compensation income	112,018	—
Total extraordinary income	112,909	420
Extraordinary losses		
Loss on retirement of non-current assets	24,848	27,151
Total extraordinary losses	24,848	27,151
Income before income taxes and minority interests	2,140,761	1,751,690
Income taxes – current	823,348	675,719
Income taxes – deferred	61,728	113,909
Total income taxes	885,076	789,629
Net income	1,255,684	962,061
Net income attributable to non-controlling interests	1,449	1,493
Net income attributable to owners of the parent company	1,254,234	960,567

(Quarterly consolidated statements of comprehensive income)

	(Thousands of yen)	
	Six months ended September 30, 2014	Six months ended September 30, 2015
Net income	1,255,684	962,061
Other comprehensive income		
Valuation difference on available-for-sale securities	1,614	(7,253)
Foreign currency translation adjustment	(121,904)	43,589
Remeasurements of defined benefit plans	25,268	41,531
Total other comprehensive income	(95,021)	77,866
Comprehensive income	1,160,663	1,039,927
(Comprehensive income attributable to)		
Owners of the parent company	1,159,532	1,038,395
Non-controlling interests	1,130	1,532

(3) Quarterly consolidated statements of cash flows

	(Thousands of yen)	
	Six months ended September 30, 2014	Six months ended September 30, 2015
Cash flows from operating activities		
Income before income taxes and minority interests	2,140,761	1,751,690
Depreciation	455,682	589,748
Increase (decrease) in allowance for doubtful accounts	(1,036)	(7,858)
Increase (decrease) in provision for bonuses	(87,479)	3,627
Increase (decrease) in provision for directors' bonuses	(75,000)	(75,000)
Increase (decrease) in provision for product warranties	(2,345)	12,926
Increase (decrease) in provision for point card certificates	2,731	11,889
Increase (decrease) in provision for directors' retirement benefits	5,389	25,288
Increase (decrease) in net defined benefit liability	95,850	127,159
Interest income	(48,669)	(60,059)
Interest expenses	—	6,379
Loss on retirement of non-current assets	24,848	27,151
Loss (gain) on sales of non-current assets	(890)	(420)
Loss (gain) on valuation of investment securities	(45,329)	3,971
Decrease (increase) in notes and accounts receivable – trade	1,406,090	1,100,365
Decrease (increase) in inventories	(22,696)	(263,638)
Increase (decrease) in notes and accounts payable – trade	(152,571)	(167,434)
Increase (decrease) in advances received	(636,504)	(208,072)
Others	(574,622)	(734,384)
Subtotal	2,484,205	2,143,332
Interest income received	48,500	61,108
Interest expenses paid	—	(6,281)
Income taxes paid	(1,458,107)	(1,045,375)
Net cash provided by (used in) operating activities	1,074,598	1,152,783
Cash flows from investing activities		
Purchase of property, plant and equipment	(635,928)	(759,018)
Proceeds from sales of property, plant and equipment	1,507	420
Purchase of intangible assets	(293,781)	(154,450)
Collection of long-term loans receivable	388	240
Payments for lease and guarantee deposits	(144,507)	(62,449)
Proceeds from collection of lease and guarantee deposits	83,525	55,378
Others	7,771	13,933
Net cash provided by (used in) investing activities	(981,023)	(905,947)
Cash flows from financing activities		
Repayments of long-term loans payable	—	(200,682)
Repayments of lease obligations	(125,153)	(111,396)
Proceeds from issuance of common shares	720	1,800
Cash dividends paid	(494,723)	(495,336)
Net cash provided by (used in) financing activities	(619,157)	(805,615)
Effect of exchange rate change on cash and cash equivalents	(52,736)	15,838
Net increase (decrease) in cash and cash equivalents	(578,319)	(542,940)
Cash and cash equivalents at beginning of period	16,710,133	16,309,599
Cash and cash equivalents at end of period	16,131,813	15,766,658

(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.