



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

July 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: August 10, 2015
 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 first quarter ended June 30, 2015 (April 1, 2015 – June 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	%
Three months ended June 30, 2015	9,605	0.6	837	(20.3)	902	(11.7)	487	(22.1)
Three months ended June 30, 2014	9,547	(1.4)	1,050	(48.9)	1,021	(50.7)	625	(48.4)

Note: Comprehensive income: Three months ended June 30, 2015: ¥474 million (-19.7%)
 Three months ended June 30, 2014: ¥590 million (-54.1%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended June 30, 2015	14.74	14.68
Three months ended June 30, 2014	18.97	18.85

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 June 30, 2015	39,582	22,991	57.9	694.11
As of March 31, 2015	41,147	23,012	55.8	694.79

(Reference) Equity capital: As of June 30, 2015: ¥22,937 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	—				
Year ending March 31, 2016 (Forecast)		14.00	—	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
First six months	20,820	6.9	1,154	(41.1)	1,185	(42.3)	650	(48.1)	19.69
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 June 30, 2015	34,341,600 shares	As of March 31, 2015	34,341,600 shares
2) Number of treasury shares	As of June 30, 2015	1,295,438 shares	As of March 31, 2015	1,295,438 shares
3) Average number of shares issued and outstanding in each period	Three months ended June 30, 2015	33,046,162 shares	Three months ended June 30, 2014	32,992,920 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 three months of the fiscal 2016

In the first three months of fiscal 2016 (April – June 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 rising prices caused by the weak yen and sluggish consumer spending, with consumers remaining cautious since consumption tax was increased.

Against this backdrop, ARTNATURE INC. and its consolidated subsidiaries (the ARTNATURE Group) targeted further growth, based on five basic policies: 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 three months of fiscal 2016, the Group reported net sales of ¥9,605 million, up 0.6% year on year. Operating income fell 20.3% year on year to ¥837 million, mainly due to the impact of higher cost of sales caused by the weak yen and aggressive spending on sales promotion to expand sales. Ordinary income declined 11.7% to ¥902 million and net income attributable to owners of the parent company decreased 22.1% to ¥487 million.

< Men's business >

Sales in the men's business declined 2.6% year on year to ¥5,299 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 the drop in sales at the start of the fiscal period.

< Ladies' business >

Sales in the ladies' business increased 2.5% year on year to ¥3,340 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, increased 11.0% year on year to ¥769 million, mainly reflecting contributions from new stores opened in the previous fiscal year.

(2) Analysis of financial position

1) Assets, liabilities and net assets

(Assets)

As of the end of the first quarter, total assets were ¥39,582 million, a drop of ¥1,565 million from the end of the previous fiscal year. Current assets decreased ¥1,863 million, mainly due to declines in cash and deposits and notes and accounts receivable – trade, while non-current assets rose ¥298 million, primarily reflecting an increase in property, plant and equipment.

(Liabilities)

As of the end of the first quarter, liabilities totaled ¥16,590 million, a decline of ¥1,543 million from the end of the previous fiscal year. This mainly reflected a drop of ¥1,547 million in current liabilities, such as accounts payable – other, income taxes payable and advances received.

(Net Assets)

As of the end of the first quarter, net assets totaled ¥22,991 million, a decrease of ¥21 million from the end of the previous fiscal year. This primarily reflected decreases in retained earnings and foreign currency translation adjustment.

2) Cash flow position

As of the end of the first quarter, cash and cash equivalents (cash) totaled ¥14,708 million, a decrease of ¥1,600 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 used net cash of ¥271 million, compared with ¥828 million in the same period a year earlier. This mainly reflected income before income taxes and minority interests of ¥899 million, depreciation of ¥291 million, increase in provision for bonuses of ¥443 million and decrease in notes and accounts receivable – trade of ¥434 million, versus

increase in inventories of ¥301 million, decrease in advances received of ¥153 million and income taxes paid of ¥1,042 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥688 million, compared with ¥520 million in the same period a year earlier. This primarily reflected purchase of property, plant and equipment of ¥631 million and purchase of intangible assets of ¥63 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥633 million, compared with ¥541 million in the same period a year earlier. This mainly reflected repayments of long-term loans payable of ¥100 million, cash dividends paid of ¥476 million and repayments of lease obligations of ¥56 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.)

Effective from the first quarter of the current fiscal year, the Company adopted the “Accounting Standard for Business Combinations” (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). As a result, 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 first quarter of the previous fiscal year and the previous 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 June 30, 2015
Assets		
Current assets		
Cash and deposits	14,288,860	12,687,787
Accounts receivable – trade	3,794,180	3,358,294
Securities	2,020,739	2,020,949
Merchandise and finished goods	1,918,655	2,081,951
Work in process	168,209	147,114
Raw materials and supplies	1,336,416	1,494,088
Others	1,719,011	1,588,198
Allowance for doubtful accounts	(12,223)	(8,002)
Total current assets	25,233,850	23,370,381
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,244,383	7,048,057
Others, net	4,881,538	4,321,331
Total property, plant and equipment	11,125,921	11,369,388
Intangible assets		
Others	734,578	780,844
Total intangible assets	734,578	780,844
Investments and other assets		
Others	4,115,763	4,124,236
Allowance for doubtful accounts	(62,888)	(62,768)
Total investments and other assets	4,052,874	4,061,467
Total non-current assets	15,913,375	16,211,700
Total assets	41,147,225	39,582,081

(Thousands of yen)

	As of March 31, 2015	As of June 30, 2015
Liabilities		
Current liabilities		
Notes and accounts payable – trade	354,757	257,622
Current portion of long-term loans payable	400,320	401,364
Accounts payable – other	1,891,436	1,231,484
Income taxes payable	1,136,133	417,709
Advances received	4,585,853	4,431,881
Provision for bonuses	815,798	1,259,298
Provision for directors' bonuses	150,000	37,500
Provision for product warranties	31,575	37,312
Provision for point card certificates	65,686	73,631
Others	1,892,593	1,628,669
Total current liabilities	11,324,154	9,776,473
Non-current liabilities		
Long-term loans payable	1,602,812	1,501,427
Provision for directors' retirement benefits	1,232,609	1,245,220
Net defined benefit liability	2,687,741	2,753,608
Asset retirement obligations	1,144,288	1,183,196
Others	142,753	130,808
Total non-current liabilities	6,810,205	6,814,260
Total liabilities	18,134,359	16,590,733
Net assets		
Shareholders' equity		
Capital stock	3,663,375	3,663,375
Capital surplus	3,552,020	3,552,020
Retained earnings	16,041,854	16,033,424
Treasury shares	(512,178)	(512,178)
Total shareholders' equity	22,745,072	22,736,642
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,342	5,088
Foreign currency translation adjustment	365,565	329,574
Remeasurements of defined benefit plans	(162,849)	(133,779)
Total accumulated other comprehensive income	215,058	200,883
Subscription rights to shares	41,650	41,650
Non-controlling interests	11,086	12,171
Total net assets	23,012,866	22,991,347
Total liabilities and net assets	41,147,225	39,582,081

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

	(Thousands of yen)	
	Three months ended June 30, 2014	Three months ended June 30, 2015
Net sales	9,547,308	9,605,806
Cost of sales	2,598,997	2,759,355
Gross profit	6,948,311	6,846,451
Selling, general and administrative expenses	5,897,925	6,009,310
Operating income	1,050,385	837,140
Non-operating income		
Interest income	25,156	31,450
Foreign exchange gains	—	23,839
Others	16,369	36,308
Total non-operating income	41,525	91,598
Non-operating expenses		
Interest expenses	—	3,256
Foreign exchange losses	35,547	—
Guarantee commission	16,374	17,701
Others	17,998	5,011
Total non-operating expenses	69,920	25,969
Ordinary income	1,021,989	902,769
Extraordinary income		
Gain on sales of non-current assets	888	—
Total extraordinary income	888	—
Extraordinary losses		
Loss on retirement of non-current assets	79	3,383
Total extraordinary losses	79	3,383
Income before income taxes and minority interests	1,022,799	899,385
Income taxes – current	343,451	387,970
Income taxes – deferred	52,680	23,456
Total income taxes	396,131	411,426
Net income	626,667	487,958
Net income attributable to non-controlling interest	796	695
Net income attributable to owners of the parent company	625,870	487,263

(Statements of comprehensive income)

	(Thousands of yen)	
	Three months ended June 30, 2014	Three months ended June 30, 2015
Net income	626,667	487,958
Other comprehensive income		
Valuation difference on available-for-sale securities	1,614	(7,253)
Foreign currency translation adjustment	(50,568)	(35,601)
Remeasurements of defined benefit plans	12,768	29,070
Total other comprehensive income	(36,185)	(13,785)
Comprehensive income	590,482	474,173
(Comprehensive income attributable to)		
Owners of the parent company	590,020	473,088
Non-controlling interests	461	1,085

(3) Quarterly consolidated statements of cash flows

	(Thousands of yen)	
	Three months ended June 30, 2014	Three months ended June 30, 2015
Cash flows from operating activities		
Income before income taxes	1,022,799	899,385
Depreciation	219,854	291,022
Increase (decrease) in allowance for doubtful accounts	(6,046)	(4,340)
Increase (decrease) in provision for bonuses	319,330	443,507
Increase (decrease) in provision for directors' bonuses	(112,500)	(112,500)
Increase (decrease) in provision for product warranties	(870)	5,736
Increase (decrease) in provision for point card certificates	(145)	7,945
Increase (decrease) in provision for directors' retirement benefits	(7,188)	12,610
Increase (decrease) in net defined benefit liability	51,527	65,906
Interest income	(25,156)	(31,450)
Interest expenses	—	3,256
Loss on retirement of non-current assets	79	3,383
Loss (gain) on sales of non-current assets	(888)	—
Decrease (increase) in notes and accounts receivable – trade	398,764	434,781
Decrease (increase) in inventories	(59,260)	(301,328)
Increase (decrease) in notes and accounts payable – trade	(115,950)	(96,630)
Increase (decrease) in advances received	(589,154)	(153,972)
Others	(480,820)	(707,214)
Subtotal	614,374	760,100
Interest income received	10,482	13,854
Interest expenses paid	—	(3,207)
Income taxes paid	(1,453,833)	(1,042,046)
Net cash provided by (used in) operating activities	(828,977)	(271,299)
Cash flows from investing activities		
Purchase of property, plant and equipment	(280,527)	(631,113)
Proceeds from sales of property, plant and equipment	1,205	—
Purchase of intangible assets	(236,570)	(63,959)
Collection of long-term loans receivable	198	120
Payments for lease and guarantee deposits	(64,432)	(25,282)
Proceeds from collection of lease and guarantee deposits	55,780	19,551
Others	4,000	12,580
Net cash provided by (used in) investing activities	(520,345)	(688,103)
Cash flows from financing activities		
Repayments of long-term loans payable	—	(100,341)
Repayments of lease obligations	(65,855)	(56,086)
Proceeds from issuance of common shares	270	—
Cash dividends paid	(476,203)	(476,967)
Net cash provided by (used in) financing activities	(541,789)	(633,395)
Effect of exchange rate change on cash and cash equivalents	(36,324)	(8,063)
Net increase (decrease) in cash and cash equivalents	(1,927,436)	(1,600,861)
Cash and cash equivalents at beginning of period	16,710,133	16,309,599
Cash and cash equivalents at end of period	14,782,696	14,708,737

(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.