



Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2015 [J-GAAP]

January 30, 2015

Name of listed company: ARTNATURE INC. Listed on: Tokyo Stock Exchange
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Scheduled date of filing the quarterly financial report: February 13, 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 third quarter ended December 31, 2014 (April 1, 2014 – December 31, 2014)

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

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2014	29,889	3.5	2,556	(37.4)	2,736	(34.0)	1,618	(32.2)
Nine months ended December 31, 2013	28,875	12.9	4,085	21.4	4,148	21.5	2,387	18.7

Note: Comprehensive income: Nine months ended December 31, 2014: ¥1,592 million (-35.2%)
 Nine months ended December 31, 2013: ¥2,457 million (20.6%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended December 31, 2014	49.03	48.75
Nine months ended December 31, 2013	75.06	74.56

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, 2014	36,950	22,175	59.9	669.66
As of March 31, 2014	37,754	21,408	56.5	647.12

(Reference) Equity capital: As of December 31, 2014: ¥22,116 million As of March 31, 2014: ¥21,349 million

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

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, 2014	—	25.00	—	30.00	55.00
Year ending March 31, 2015	—	25.00	—		
Year ending March 31, 2015 (Forecast)				15.00	—

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. The year-end dividend (forecast) for the fiscal year ending March 31, 2015 is based on the number of shares after the stock split.

3. Consolidated financial forecast for the fiscal year ending March 31, 2015 (April 1, 2014 – March 31, 2015)

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

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	43,840	9.6	5,528	2.7	5,597	2.5	3,286	4.9	99.60

Notes: 1. Revisions to the most recently announced earnings forecasts 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. Net income per share for the fiscal year ending March 31, 2015 is based on the number of shares after the stock split.

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, 2014	34,340,400 shares	As of March 31, 2014	34,335,600 shares
2) Number of treasury shares	As of December 31, 2014	1,314,138 shares	As of March 31, 2014	1,344,138 shares
3) Average number of shares issued and outstanding in each period	Nine months ended December 31, 2014	33,010,273 shares	Nine months ended December 31, 2013	31,804,746 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 2015 (April – December 2014), the Japanese economy showed signs of recovery, supported by the government's economic policies and monetary easing. However, the outlook remained uncertain due to concerns about weak consumer spending amid a pullback in demand after the consumption tax hike and rising prices in Japan caused by the weak yen.

Against this backdrop, ARTNATURE INC. and its consolidated subsidiaries (the ARTNATURE Group) targeted further growth, based on four 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; and cultivate personnel that are resilient to change and establish a motivating workplace. Guided by these policies, the Group worked to improve customer retention by reinforcing product development capabilities and by improving the skills, customer service and product proposal capabilities of sales staff. The Group also actively held trial fitting events, expanded its network of JULIA OLGER salons, which sell ladies' ready-made wigs, made preparations for the startup of a new production site in Cambodia and implemented a range of other initiatives.

As a result, for the first nine months of fiscal 2015, the Group reported net sales of ¥29,889 million, up 3.5% year on year. Operating income fell 37.4% year on year to ¥2,556 million, mainly due to the aggressive spending on sales promotion. Ordinary income declined 34.0% to ¥2,736 million and net income dropped 32.2% to ¥1,618 million.

Performances for each business segment were as follows:

< Men's business >

Sales in the men's business rose 3.6% year on year to ¥17,182 million, due to initiatives such as reinforcing the customer supervisor system to improve customer retention and strengthening the skills, customer service and product proposal capabilities of sales staff.

< Ladies' business >

In the ladies' business, the Group implemented various initiatives. These included actively holding trial fitting events, working to improve customer satisfaction by enhancing the skills of sales staff, reinforcing customer follow-up support in stores, and enhancing technical capabilities to encourage customers to visit stores more regularly. However, these initiatives failed to offset the impact of the pullback in demand after the consumption tax hike, with sales in the ladies' business declining 2.1% year on year to ¥9,629 million.

< Ladies' ready-made wigs business >

Sales in the JULIA OLGER business, which sells ladies' ready-made wigs, increased 32.9% year on year to ¥2,533 million, mainly due to aggressive new salon openings in shopping malls and other locations.

(2) Analysis of financial position

1) Assets, liabilities and net assets

(Assets)

As of the end of the third quarter, total assets were ¥36,950 million, a decline of ¥804 million from the end of the previous fiscal year. Current assets decreased ¥2,097 million, mainly due to declines in cash and deposits and notes and accounts receivable–trade, while non-current assets rose ¥1,293 million, primarily reflecting increases in property, plant and equipment and intangible assets.

(Liabilities)

As of the end of the third quarter, liabilities totaled ¥14,774 million, a decline of ¥1,570 million from the end of the previous fiscal year. This mainly reflected a drop of ¥1,585 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 ¥22,175 million, an increase of ¥766 million from the end of the previous fiscal year. This primarily reflected an increase of ¥781 million in retained earnings.

2) Cash flow position

As of the end of the third quarter, cash and cash equivalents (cash) totaled ¥15,397 million, a decrease of ¥1,312 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 ¥1,664 million, compared with ¥555 million in the same period a year earlier. This mainly reflected income before income taxes and minority interests of ¥2,824 million, depreciation of ¥709 million,

decrease in notes and accounts receivable – trade of ¥984 million and increase in advances received of ¥206 million, versus decrease in provision for bonuses of ¥494 million, increase in inventories of ¥251 million and income taxes paid of ¥2,274 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥1,933 million, compared with ¥2,045 million in the previous fiscal year. This mainly reflected purchase of property, plant and equipment of ¥1,504 million, purchase of intangible assets of ¥334 million, and net payments for lease and guarantee deposits of ¥173 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥1,087 million, compared with cash provided of ¥414 million in the same period a year earlier. This mainly reflected cash dividends paid of ¥905 million and repayments of lease obligations of ¥182 million.

(3) Qualitative information on consolidated financial forecasts

The full-year financial forecasts announced on May 14, 2014 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 Retirement Benefits,” etc.)

Effective from the first quarter of fiscal 2015, the Company has applied the provisions in paragraph 35 of “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (“ASBJ”) Statement No.26, May 17, 2012) and the provisions in paragraph 67 of “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No.25, May 17, 2012). Accordingly, the Company reviewed the calculation method for retirement benefit obligations and service costs, retaining the straight-line method to attribute projected retirement benefit obligations to each fiscal period and changing the method for determining the discount rate to multiple discount rates for each period.

The application of the accounting standard for retirement benefits, etc. conforms with the transitional treatment stipulated in Item 37 of the Accounting Standard for Retirement Benefits, and the effect of the change in calculation method of retirement benefit obligations and service costs is adjusted in retained earnings at the start of the first quarter of the current fiscal year.

As a result, at the start of the first quarter of the current fiscal year, net defined benefit liability decreased by ¥109,439,000 and retained earnings increased by ¥70,435,000. The application of the accounting standard for retirement benefits, etc. had an immaterial impact on operating income, ordinary income and net income in the third quarter of the current fiscal year.

(Application of “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts”)

Effective from the first quarter of the current fiscal year, the Company adopted the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (Accounting Standards Board of Japan Practical Issues Task Force No. 30, December 25, 2013). However, the Company has continued to apply existing accounting policy to trust contracts that were concluded before the start of the first quarter of the fiscal year under review.

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, 2014	As of December 31, 2014
Assets		
Current assets		
Cash and deposits	14,690,314	13,377,055
Accounts receivable – trade	4,950,216	3,971,054
Securities	2,019,818	2,020,491
Merchandise and finished goods	1,511,546	1,775,106
Work in process	124,072	129,895
Raw materials and supplies	1,034,979	1,025,145
Others	1,541,692	1,475,475
Allowance for doubtful accounts	(19,677)	(18,712)
Total current assets	25,852,963	23,755,512
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,062,714	4,576,789
Others, net	2,772,537	3,118,628
Total property, plant and equipment	6,835,251	7,695,417
Intangible assets		
Others	445,670	693,994
Total intangible assets	445,670	693,994
Investments and other assets		
Others	4,684,435	4,868,761
Allowance for doubtful accounts	(63,527)	(63,058)
Total investments and other assets	4,620,907	4,805,702
Total non-current assets	11,901,830	13,195,114
Total assets	37,754,793	36,950,626

(Thousands of yen)

	As of March 31, 2014	As of December 31, 2014
Liabilities		
Current liabilities		
Notes and accounts payable – trade	358,818	223,211
Accounts payable – other	2,013,447	1,518,590
Income taxes payable	1,557,281	202,829
Advances received	4,802,951	5,009,621
Provision for bonuses	905,878	411,939
Provision for directors' bonuses	150,000	112,500
Provision for product warranties	31,206	28,760
Provision for point card certificates	67,760	73,295
Others	1,411,324	2,132,412
Total current liabilities	11,298,669	9,713,160
Non-current liabilities		
Provision for directors' retirement benefits	1,202,065	1,220,031
Net defined benefit liability	2,496,107	2,534,052
Asset retirement obligations	1,067,620	1,148,604
Others	281,382	159,084
Total non-current liabilities	5,047,176	5,061,773
Total liabilities	16,345,845	14,774,934
Net assets		
Shareholders' equity		
Capital stock	3,662,925	3,663,285
Capital surplus	3,550,447	3,551,456
Retained earnings	14,626,624	15,408,008
Treasury shares	(531,433)	(519,572)
Total shareholders' equity	21,308,564	22,103,178
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,329	11,740
Foreign currency translation adjustment	167,253	94,104
Remeasurements of defined benefit plans	(129,939)	(92,504)
Total accumulated other comprehensive income	40,643	13,340
Subscription rights to shares	51,368	49,147
Minority interests in income	8,371	10,025
Total net assets	21,408,947	22,175,692
Total liabilities and net assets	37,754,793	36,950,626

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

	(Thousands of yen)	
	Nine months ended December 31, 2013	Nine months ended December 31, 2014
Net sales	28,875,119	29,889,811
Cost of sales	7,574,803	8,117,018
Gross profit	21,300,316	21,772,793
Selling, general and administrative expenses	17,214,667	19,215,820
Operating income	4,085,648	2,556,973
Non-operating income		
Interest income	62,155	63,706
Dividend income	1,240	—
Foreign exchange gains	—	68,739
Gain on valuation of investment securities	62,256	61,564
Others	47,231	47,372
Total non-operating income	172,883	241,383
Non-operating expenses		
Foreign exchange losses	30,621	—
Guarantee commission	44,130	46,463
Others	35,610	15,067
Total non-operating expenses	110,362	61,530
Ordinary income	4,148,169	2,736,826
Extraordinary income		
Gain on sales of non-current assets	—	902
Compensation income	—	112,018
Total extraordinary income	—	112,920
Extraordinary losses		
Loss on retirement of non-current assets	9,427	24,848
Total extraordinary losses	9,427	24,848
Income before income taxes and minority interests	4,138,741	2,824,898
Income taxes – current	1,526,877	958,908
Income taxes – deferred	221,721	245,558
Total income taxes	1,748,599	1,204,467
Income before minority interests	2,390,142	1,620,431
Minority interests in income	2,732	1,795
Net income	2,387,410	1,618,636

(Statements of comprehensive income)

	(Thousands of yen)	
	Nine months ended December 31, 2013	Nine months ended December 31, 2014
Income before minority interests	2,390,142	1,620,431
Other comprehensive income		
Valuation difference on available-for-sale securities	299	8,411
Foreign currency translation adjustment	67,091	(73,289)
Remeasurements of defined benefit plans	—	37,434
Total other comprehensive income	67,390	(27,443)
Comprehensive income	2,457,533	1,592,988
(Comprehensive income attributable to)		
Owners of the parent	2,454,492	1,591,334
Minority interests	3,040	1,654

(3) Quarterly consolidated statements of cash flows

	(Thousands of yen)	
	Nine months ended December 31, 2013	Nine months ended December 31, 2014
Cash flows from operating activities		
Income before income taxes	4,138,741	2,824,898
Depreciation	592,186	709,821
Increase (decrease) in allowance for doubtful accounts	(4,058)	(1,433)
Increase (decrease) in provision for bonuses	(387,930)	(494,088)
Increase (decrease) in provision for directors' bonuses	(37,500)	(37,500)
Increase (decrease) in provision for product warranties	(3,513)	(2,446)
Increase (decrease) in provision for point card certificates	9,303	5,535
Increase (decrease) in provision for retirement benefits	193,067	—
Increase (decrease) in provision for directors' retirement benefits	38,752	17,966
Increase (decrease) in net defined benefit liability	—	147,384
Interest and dividend income	(63,396)	—
Interest income	—	(63,706)
Loss on retirement of non-current assets	9,427	24,848
Loss (gain) on sales of non-current assets	—	(902)
Loss (gain) on valuation of investment securities	(62,256)	(61,564)
Decrease (increase) in notes and accounts receivable – trade	(1,151,494)	984,399
Decrease (increase) in inventories	(456,228)	(251,284)
Increase (decrease) in notes and accounts payable – trade	10,171	(136,284)
Increase (decrease) in advances received	318,742	206,669
Others	(505,564)	(5,523)
Subtotal	2,638,452	3,866,788
Interest and dividend income received	61,772	—
Interest income received	—	72,898
Income taxes paid	(2,144,724)	(2,274,792)
Net cash provided by (used in) operating activities	555,499	1,664,893
Cash flows from investing activities		
Purchase of securities	(2,000,000)	—
Proceeds from redemption of securities	1,000,000	—
Purchase of property, plant and equipment	(831,373)	(1,504,725)
Proceeds from sales of property, plant and equipment	—	1,525
Purchase of intangible assets	(84,842)	(334,858)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(19,971)
Collection of long-term loans receivable	1,012	508
Payments for lease and guarantee deposits	(138,941)	(173,827)
Proceeds from collection of lease and guarantee deposits	23,909	93,922
Others	(15,671)	3,609
Net cash provided by (used in) investing activities	(2,045,907)	(1,933,816)
Cash flows from financing activities		
Repayments of lease obligations	(115,992)	(182,475)
Proceeds from issuance of common shares	1,320,601	720
Purchase of treasury shares of subsidiaries	(58)	—
Cash dividends paid	(789,902)	(905,331)
Net cash provided by (used in) financing activities	414,648	(1,087,087)
Effect of exchange rate change on cash and cash equivalents	24,634	43,423
Net increase (decrease) in cash and cash equivalents	(1,051,125)	(1,312,586)
Cash and cash equivalents at beginning of period	14,885,330	16,710,133
Cash and cash equivalents at end of period	13,834,205	15,397,546

(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.